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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

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STANDING COMMITTEE

ON

# TRANSPORT AND COMMUNICATIONS

Chairman: Mr. JOSEPH MACALUSO

## MINUTES OF PROCEEDINGS

No. 30-44

1966-67

THURSDAY, OCTOBER 27, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

### WITNESSES:

*From the National Farmers Union:* Mr. Roy Atkinson, President;  
Mr. H. J. Kieferle, Economic Adviser.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

Chairman: Mr. Joseph Macaluso

Vice-Chairman: Mr. H. Pit Lessard

and

Mr. Allmand,	Mr. Horner ( <i>Acadia</i> ),	Mr. Olson,
Mr. Andras,	Mr. Howe ( <i>Wellington-</i>	Mr. Pascoe,
Mr. Bell ( <i>Saint</i>	<i>Huron</i> ),	Mr. Rock,
<i>John-Albert</i> ),	Mr. Jamieson,	Mr. Schreyer,
Mr. Boulanger,	Mr. Langlois ( <i>Chicoutimi</i> ),	Mr. Sherman,
Mr. Byrne,	Mr. Legault,	Mr. Southam,
Mr. Cantelon,	Mr. MacEwan,	Mr. Stafford—25.
Mr. Deachman,	Mr. McWilliam,	
Mr. Fawcett,	Mr. Nowlan,	

(Quorum 13)

R. V. Virr,  
Clerk of the Committee.





## MINUTES OF PROCEEDINGS

THURSDAY, October 27, 1966.  
(51)

The Standing Committee on Transport and Communications met this day at 10.35 a.m., the Chairman, Mr. Macaluso presiding.

*Members present:* Messrs. Andras, Bell (*Saint John-Albert*), Boulanger, Byrne, Cantelon, Deachman, Fawcett, Horner (*Acadia*), Jamieson, Langlois (*Chicoutimi*), Lessard, Macaluso, McWilliam, Nowlan, Pascoe, Schreyer, Southam, Stafford (18).

*Also present:* Honourable John Turner, Minister without Portfolio, Mr. McLelland, M.P.

*In attendance:* From the National Farmers Union: Mr. Roy Atkinson, President; Mr. H. J. Kieferle, Economic Adviser.

The Chairman introduced the representatives of the National Farmers Union and asked Mr. Atkinson to read his brief. (*See Appendix A-17 to today's Minutes of Proceedings*).

After presentation of the brief, the Chairman invited the Members to examine the witnesses.

And the questioning of the witnesses was concluded.

The Chairman referred to a brief he had received from the Canadian Federation of Mayors and Municipalities.

On motion of Mr. Langlois (*Chicoutimi*), seconded by Mr. Fawcett,

*Resolved*,—That the brief on behalf of the Federation of Mayors and Municipalities be printed as an appendix to this day's Minutes of Proceedings (*See Appendix A-18*).

Moved by Mr. Lessard, seconded by Mr. Byrne,

That Mr. Donald Armstrong, an Economist be paid a per diem allowance of \$150.00, subject to the approval of Mr. Speaker.

Carried on division—Yeas 12; nays 1.

At 12.40 p.m. the meeting adjourned until 3.30 p.m. on Monday, October 31, 1966.

R. V. Virr,  
*Clerk of the Committee.*

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NOTE: Because of a technical deficiency in the electronic Apparatus a verbatim report of today's evidence is not available.



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**APPENDIX A-17**

**NATIONAL FARMERS UNION**  
Submission  
to the  
**HOUSE OF COMMONS COMMITTEE**  
on  
**TRANSPORT AND COMMUNICATIONS**  
on the subject of  
**BILL C-231**

Ottawa, Canada,  
October 27, 1966

We welcome the opportunity of appearing before your committee to set out our views on the proposed national transportation policy for Canada as embodied in Bill C-231.

Bill C-231 is the culmination of a great deal of study on the subject of transportation, not the least of which was the report of the MacPherson Royal Commission on Transportation which forms the basis for the presently proposed legislation.

The MacPherson Commission enunciated what is believed to be the objective of a transportation policy for Canada when it stated:

"In brief, the broad aim of public transportation policy should be to ensure—consistent with the other goals of national policy—that all the various modes of transport are given a fair chance to find their proper place within a competitive system. The application of such a policy is, we believe, essential if we are to obtain—at a minimum cost—a balanced and efficient transportation system which is fully adequate to meet the nation's transportation requirements."

(*MacPherson Royal Commission*, Vol. I, page 30)

It is the MacPherson Royal Commission's reliance on the role of competition in the transportation industry as a means toward assuring Canada of an efficient transportation system to which we wish primarily to direct our attention.

We find this necessary since Bill C-231 embodies the general approach of the MacPherson Royal Commission which, in turn, did not, in our view, seriously consider the principles of national transportation in the context of its historical role or in the light of changing national economic conditions.

### *Historical Role of Transportation in Canada*

Since the turn of the 19th century, transportation in Canada has been instrumental in developing a national industrial and politically independent nation.<sup>1</sup> The development of the St. Lawrence-Great Lakes system through canals, the construction of the Intercolonial Railway to the Maritimes (1876), and the Canadian Pacific to the west coast (1885) were conditional to the emergence of a national industrial complex politically independent of the United States. Innes observes:

"The act of union, and the construction and deepening of canals, the support of the Grand Trunk Railway, Confederation, the construction of the International, the National Policy, and the support of the Canadian Pacific, the Grand Trunk Pacific, the National Transcontinental, and the Canadian Northern were results of the necessity of checking competition from United States, and of overcoming the seasonal handicaps of the St. Lawrence and the handicaps incidental to the precambrian formation and the Rocky Mountains period. To build canals and improve the St. Lawrence system, and to build railways to the Maritimes and across the precambrian formation north of Lake Superior to British Columbia, from Montreal, Quebec, and Toronto, necessitated reorganization of the politi-

<sup>1</sup> See V. Fowke, *National Policy and the Wheat Economy*, (Toronto: University of Toronto Press, 1957.)

cal structure, grants in land and cash, and the tariff, particularly the National Policy and imperial preferences."<sup>1</sup>

Put another way, the development of an interprovincial transportation network has never been exclusively regarded as an end in itself. The system of canals built during the early part of the 19th century was designed to improve trade and commerce in staples such as furs, timber, and cereal grains.<sup>2</sup> The canal system per se was subservient to other economic objectives.

The construction of the Intercolonial and the western transcontinentals was in response to achieving the goal of economic and political unity north of the 49th parallel. Indeed, the route followed by the Intercolonial satisfied military and commercial rather than economic consideration.<sup>3</sup> The same was true of the routes followed by the western transcontinentals. Fowke observes:

"It would be incorrect to assume...that the prairie provinces would be without adequate railway facilities had the Canadian transcontinentals and their feeder systems not been built. One of the chief concerns of the early railway policy of the Dominion Government was the exclusion of American railways from Canadian territory to the west of the Great Lakes...The national policy of tariffs and railways was successful in preventing this absorption. As far as the western provinces are concerned, therefore, Canadian railways are expensive alternatives to American railways rather than no railways at all."<sup>4</sup>

And Innis writes:

"The growth of remunerative traffic to western Canada after the turn of the century led the Grand Trunk to assume an aggressive policy with plans to extend its line from Chicago to Winnipeg. Again the tariff and the refusal of the Canadian government to support a line through American territory compelled it to agree to co-operate in the construction of the National Transcontinental Railway from Quebec to Winnipeg in the west and to Moncton in the east, and to build, under a subsidiary, the Grand Trunk Pacific, a line from Winnipeg to Prince Rupert. The result was a trans-continental line from Moncton to Prince Rupert with no close connections with the parent system and ill adapted as a direct entry into Western Canada."<sup>5</sup>

The burden of financing the construction of an interprovincial transportation network during the 19th and early part of the 20th centuries fell largely on the shoulders of the Canadian taxpayer. The cost of building the Intercolonial Railway was borne by the federal government.<sup>6</sup> The construction of the CPR was made possible in large measure through public subsidies, land grants and guaranteed loans.<sup>7</sup> The Canadian Northern received public subsidies and land

<sup>1</sup> H. A. Innis, *Essays in Canadian Economic History* (Toronto: University of Toronto Press, 1962), p. 229.

<sup>2</sup> See G. P. de T. Glazebrook, *A History of Transportation in Canada* (Toronto: McClelland and Stewart Ltd., 1964), Vol. 1.

<sup>3</sup> *Ibid.*, Vol. II, Chap. VI.

<sup>4</sup> Fowke, *op. cit.*, pp. 68-69.

<sup>5</sup> Innis, *op. cit.*, p. 226.

<sup>6</sup> Glazebrook, *op. cit.*

<sup>7</sup> See "An Historical Analysis of the Crow's Nest Pass Agreement and Grain Rates", a *Submission of the Province of Saskatchewan to the Royal Commission on Transportation*, 1960; Chap. V and Appendices A & B; Glazebrook, *op. cit.*, Chaps. VII-IX.



grants, the Grand Trunk Pacific received public guaranteed bonds and loans, and the National Transcontinental Railway, built by the federal government, was turned over to the Grand Trunk Pacific.<sup>1</sup> Later, the Canadian Northern, the Grand Trunk, the Grand Trunk Pacific, the National Transcontinental, and the Intercolonial were brought under the single management of the Canadian National Railways, a publicly owned utility.

If railways, along with canals, were instruments of national policy, it must also be said that the Canadian public assumed its full responsibilities in the creation, financing, and later, the operation of such instruments.

The historical role of transportation in Canada can now be restated. Interprovincial transportation has been an indispensable instrument of national policy. In most cases, the taxpayer has borne the expense of providing and operating the service, regardless of the mode; in some cases, the public has subsidized private corporations for the construction and operation of a mode. In all cases, the public—that is, the federal government—has assumed responsibility for the regulation and control of interprovincial transportation, if only on a modal basis.

### *Contemporary Trends in Transportation*

Today, as much as ever, industry and commerce depend to a large measure on the provision of an efficient and at the same time sufficient transportation industry. That industry, therefore, continues to serve a vital role in our economic and social development. Transportation fulfills an important function and we submit that it requires the nation's constant attention and scrutiny. We are pleased with the proposed setting up of a well organized Transport Commission which will extend its scope of reference to all modes of interprovincial transport. It goes without saying that, to be effective, the Commission will require the right and power to consider all modes of transport, since all modes of transport are dependent on government participation in the provision of transport facilities.

### *Objectives of the National Transportation Policy*

The kind of public role we support in the field of transportation is one designed to serve as an instrument of facilitating continued economic and social development and integrity of Canada as a whole. The provision of an efficient transport system has been and will continue to be a critical and indispensable instrument in shaping this nation. But if one recognizes this important role of the transportation industry, it follows that interprovincial transportation must be regarded as a public service industry vital to the economic and political needs of our nation... As such, the provision of transportation must be regarded as a means to an end, not an end in itself. The MacPherson Royal Commission on Transportation acknowledged this in the following manner:

"Almost every transaction which occurs in the life of the nation involves transportation as one element of cost. Thus, the material well-being of the nation is improved when goods are manufactured and services are

<sup>1</sup> Glazebrook, *op. cit.*, Chap. X; C. Martin, "Dominion Lands Policy", *Canadian Frontiers of Settlement*, ed. W. A. MacIntosh & W. Joerg, (Toronto: The Macmillan Co., 1938), Chaps. IV and V.

rendered under conditions where the real cost of transportation is kept to the minimum necessary to provide fully adequate services."

(*Report of the Royal Commission on Transportation*, Vol. II., p. 9)

We would like to draw your attention to the last part of this quotation. It refers to "fully adequate services" as a transportation objective. However, the Commissioners did not define national transportation objectives in those terms. Rather, they chose to concentrate on the *means* of providing fully adequate services. In fact, we submit that the Commissioners elevated the means of providing a service to an end in itself. In other words, it is not the provision for but the providers of interprovincial transport which now becomes the objective of national policy. Bill C-231 appears to have incorporated this feature by permitting the carriers of our goods and services greater latitude in shaping policies for service.

We reject this point of view. National policy should be concerned first and foremost with the over-all economic and social objectives of the nation which transportation as an industry serves. It bears repeating that the objective of interprovincial transportation should remain an instrument for the development and maintenance of a viable economic and political nation.

### *The Competitive Position of Canada's Railways*

The competitive position of the railways in this country in the last two or three decades has been considerably weakened. But we do not agree that this is due to "the burden which the railways continue to carry as a legacy from the monopolistic environment of the past." (*MacPherson Royal Commission Report*, Vol. II., p. 28). We argue that this relative position of dominance which the railways have lost is in part due to their own inability or unwillingness to cope with rapidly changing technological developments in the field of transportation as a whole.

The MacPherson Royal Commission Report made numerous references to the competitive spirit observed in the field of transportation. For example, in citing the impact of competition upon the railway companies, it observed as follows:

"Although in absolute figures, the tonnage carried by the railways continued at a fairly constant level, their share of inter-city revenue freight ton miles fell from about 75% of the total in 1949 to just over 60% in 1953. By 1959 the figure was close to 50%."

(*MacPherson Royal Commission Report*, Vol. I., p. 6)

However, it should be noted that a substantial share of this loss in freight may in fact have been nothing more than a transfer from rail traffic to their own trucking divisions. By eliminating the potential threat of competition from the trucking industry by buying it out<sup>1</sup> the real degree of competition being experienced by the railway companies may in fact have been overemphasized.

The impracticability of unrestrained competition in the transportation industry as a means towards providing a rational transportation system was, we

<sup>1</sup> The full impact of this elimination of competition by buying out the trucking industry is illustrated in a brief prepared by G. R. Stranger, entitled, "Railways Recreation of the Transportation Monopoly", 29 James Street, Hamilton, Ontario.

believe, recognized by the Commission when, in dealing with the developing economy, it noted as follows:

"In the newer areas it is still possible, and in many cases desirable, to restrict competition. The lack of volume production, the uncertainties of the developmental patterns of the area and the large capital requirements usually make restricted competition the most efficient mechanism."

It stated further that:

"Grants in aid, the provision of capital structures and rate or operating subsidies, or both, to particular modes or individual carriers do no violence to economic principles in such an environment." (*MacPherson Royal Commission Report*, Vol. II., p. 134)

In the light of the recognition by the Commission that competition has in fact limitations as a means towards providing efficiency in the transportation system, we believe it logically follows that the complete integration of our rail system would facilitate the rationalization of an efficient transportation system in Canada. We regret that Bill C-231 does not provide for such a possibility.

We advance this approach for a number of reasons. Integration of the rail systems would provide the opportunity for removal of duplicate facilities and parallel services. This, in turn, would serve to stimulate competition between rail service and other modes of transportation rather than emphasizing competition between railways which in reality is little more than a facade.

Integration would enable proper planning in the provision of essential rail services to all areas of Canada. It would be hoped that such problems as periodic boxcar shortages for grain movement might be overcome through proper allocation of boxcars on a basis of need. The use of Canadian rolling stock on United States rail lines might also be more properly co-ordinated and regulated to assure that Canadian needs will not at any time be jeopardized. It should not be necessary to point to the many futile efforts on the part of governments and Royal Commissions in the past trying to get the railways to co-operate in many of their operations.<sup>1</sup>

It is our view that emphasis on competition between rail services is, in fact, grossly misplaced. Freight rates are subject to the scrutiny and approval of a public body. While Bill C-231 proposes to alter the procedure previously required of railway companies in applying for freight rate changes on variable cost items, the transport commission and/or parliament still retains powers of veto.

One further observation in respect to the absence of competition between railway companies and a substantial argument in favor of integration is the apparent co-ordination between companies in the application for freight rate increases and the uniformity of such requests. While substantial public subsidies are now paid to railway companies, the first alternative offered by the railway companies to an initial reduction of \$14,000,000 in government subsidies is a bid for higher freight rates, which will transfer the major burden of cost increases from a broad national base to much narrower regional disparities. The element of competition and efficiency is nowhere evident.

<sup>1</sup> *MacPherson Royal Commission Report*, Vol. II, p. 74 & 75.



Finally, there is in our view evidence to support the belief that the Canadian Pacific Railway Company is much nearer to accepting in principle the integration of the rail system in Canada than its public utterances might lead one to believe. The background of events leading to the construction of the Great Slave Railway and the refusal of CPR corporate willingness to invest capital in the construction of that railway is a case in point. The former Minister of Agriculture, Honourable Alvin Hamilton, in the House of Commons spoke as follows on this matter:

"To give honourable members an illustration of the attitude on the part of railway management that we have to fight, I mention the Pine Point Railway. In 1958, the then Prime Minister of our country announced in Winnipeg a ten-point, over-all development program. One of these points concerned the building of a railroad to the south shore of Great Slave Lake. I well recall the laughs and mockery at that time. Some said it was a vision.

"Let me relate the significance of Pine Point, not only to the development of new wealth in this country, but to railway profits and operation. The Pine Point Railway runs for approximately 400 miles from Steen at the end of the Northern Alberta Railway.

"The property at the end of the railway was owned at that time by a subsidiary of Cominco which is, in turn, a subsidiary of the Canadian Pacific Railway. Naturally we went to the railway and asked if they would not co-operate in building these 400 miles of line to Great Slave Lake in order to haul the lead and zinc from the vast volumes of reserves to help us develop not only a needed resource but also to establish an economic base and platform on which we could develop the whole Mackenzie River basin. The attitude of the Canadian Pacific Railway is well known. They refused to take part in the building of this railway. As a result, the CNR built the line on the guarantee of the federal government and rates were set to make the hauling of the ore from Pine Point compensatory. I believe the CNR got the hauling rights for that ore to Calgary and the CPR takes it over the mountains to Kimberley and Trail.

"The point I am making can best be described by giving some of the rough figures which have appeared in the press regarding the value of that mine in the first year. The mine started to operate when the railway was completed in the fall of 1964. The first full year of operation was 1965 and I think the capital cost was roughly \$25 million. The profits in the first year of \$22 million were sufficient to pay off most of the capital cost of the mine in that one year. The year 1966 is not over and if I read the press correctly profits on the Pine Point mine this year are running at approximately \$36 million."

(*House of Commons Debate*, Official Report, Vol. III., No. 122, Friday, September 2, 1966)

The Great Slave Railway was constructed by the federal government at an approximate cost of \$86 million.<sup>1</sup> No one can deny that expanded transportation services in our northern territories are key to further future development.

<sup>1</sup> See Article "Steel to Great Slave", E. R. Wieck in Department of Northern Affairs publication "North", May-June, 1964, edition.



However, it appears clear that development of transportation will depend largely on the initiative of the public sector assuming risks normally credited as forming the cornerstone of private competitive enterprise.

One might thus conclude that CPR has accepted the principle of public ownership in rail transportation as an inevitable trend of the future.

We recommend Bill C-231 make immediate provision for integration of the rail transportation system in Canada at this time.

### *Non-Rail Transport*

Any actions which Parliament takes with respect to non-rail transport will need to be consistent with the over-all objectives of a sound National Policy. Needless to say, before such a decision is made we think it would require a special study to ensure that all the factors affecting the decision have been considered. However, we do believe a definite policy on the question should be adopted and made public.

### *Railroads as Instruments of Sound National Policy*

In the light of these findings and observations, we submit to your committee the following guideline as an alternative approach to present policies in the subsidization of rail transportation.

We suggest that the transportation function in this country can best be fulfilled if the industry is made a deliberate tool of counter-cyclical actions. In other words, when general economic conditions are buoyant, when industrial output is high, when crops are good, and when the demand for Canada's resources is high, it goes without saying that the demand for transport facilities will reach unprecedented heights. Under these conditions the transport industry should be healthy and require no financial assistance from the public treasury. New investments in the industry will then be forthcoming from its own profits.

But when the economy at large experiences a recession, when production of goods and services is lagging, and perhaps crop conditions are disappointing, the demand for transportation will obviously decline. In this case, the transport industry can be deliberately used to counter the trend in the economy. It would offer special facilities, services and rates to encourage increased economic stimulation and activity. It goes without saying that under such conditions the transport industry would receive appropriate aid from the public treasury.

### *The Transport Commission*

Bill C-231 provides for a Transport Commission possessed of broad powers. It is our hope that the reorganized Transport Commission will be truly independent in its assessment of the prevailing economic conditions. It should not only be staffed by competent experts in the field of transportation economics, but by economists, sociologists and other personnel of special skills including representatives of the various economic sectors of the nation largely dependent on transport of goods. It would have the powers and resources necessary to facilitate the proper research, analysis and scrutiny required to do the job. We envisage its recommendations to Parliament will be based on exhaustive and considerate study of all the potential effects of a given course of action and emphasize that it consider the immediate and long-run economic and social effects of actions in the field of transportation.

We think this will improve the proper commercial objectives in transportation.

#### *Branch Rail Line Abandonment*

Bill C-231 sets out in some detail the criteria to be applied in the abandonment of branch lines.

We have, on previous occasions, expressed our concern over the social and economic consequences to communities located on branch lines scheduled for abandonment. For this reason, we believe the matter of giving public notice on abandonment applications and the calling of hearings on each application for abandonment should be a mandatory provision of Bill C-231 rather than discretionary as set out in Clause 42, Section 314 b (1).

We further believe that consideration should be given by Parliament to:

- (a) The payment of losses to be incurred to rail-tied investment and;
- (b) Payment of special federal grants to local government bodies, rural and urban, toward road construction costs which will, in many cases, be required to handle heavier traffic.

The cost burden of the several substantial changes which will burden relatively small sectors of the economy in the attempt to rationalize the transportation system must, we believe, be shared on a national basis. The comparative range in cost to farmers alone in the movement of grain from their farms to country elevators will in future be sharply increased as a result of rail line abandonment.

#### *Crow's Nest Pass Rate Study*

A study of Crow's Nest Pass Rates as they apply to export grain and flour is to be undertaken by the newly proposed Transport Commission and completed by December 31, 1969.

We strongly recommend that in its assessment of the Canadian Pacific Railway's operations in the movement of export grain and flour, the Commission does not isolate revenues received from export grain movement alone to form an evaluation of the CPR true revenue position.

This would, in our view, be taking export grain freight rates out of the total context of the original Crow's Nest Pass Rate Agreement of 1897 and be a most unfair assessment of the true situation.

We recommend, therefore, that net revenues to the CPR in the movement of export grain under the terms of the Crow's Nest Pass Rates Agreement be considered in the light of total revenues annually accruing to the CPR from related concessions and land grants and the movement of other goods. In no other way can the true revenue value to the corporation from the Crow's Nest Pass Rate Agreement be properly assessed.

#### *Recommendations*

The arguments which we have presented lead us to recommend the following:

- (1) The total integration and public ownership of all interprovincial rail transport to ensure rationalization of plant and facilities and to

facilitate the implementation of the above stated principle serving our National Policy.

- (2) Upon considered deliberation and study of the problem of railway ownership of non-rail transportation facilities, Parliament makes it publicly known what position it takes, and then directs the publicly owned railroad to take the necessary and appropriate steps.
- (3) The adoption of the principle that interprovincial rail transport is a service industry which can better serve our National Policy if it is deliberately used as an instrument of counter-cyclical actions as an alternative to the complete elimination of government subsidies.
- (4) That the Commission be obliged to call public hearings on all applications for branch line abandonment.
- (5) That Parliament consider compensation payments:
  - (a) On losses which will be suffered by holders of rail-tied investments on abandoned branch lines, and
  - (b) To provide grants to local government bodies for road construction.
- (6) That the Commission's study of the Crow's Nest Pass Rates include revenues accruing to the CPR from land grants and concessions outlined in the original agreement.

All of which is respectfully submitted.

APPENDIX A-18

TRANSPORT COMMITTEE

Submission by

THE RAILWAY PROPERTY TAXATION COMMITTEE

of the

CANADIAN FEDERATION OF MAYORS AND MUNICIPALITIES

*Grants in-lieu-of Property Taxes—Canadian National Railways, and Full  
Property Taxation—Canadian Pacific Railways.*

OCTOBER 1966



In the course of the first session of the Twenty-seventh Parliament the Minister of Transport, the Honourable J. W. Pickersgill, announced to the House (House of Commons Debates, Volume III, Number 125, Thursday, September 8, 1966, p. 8210),

"It has been the custom in the case of government owned railways, as distinguished from other parts of the Canadian National system, for the Canadian National to make some grants in lieu of taxes. It will be the intention of the government when this legislation has been passed, as a contribution toward the process of rationalization and equal treatment for all parts of Canada, to instruct the Canadian National Railways to make payments to these municipalities as though they were taxable. We have the power to do that without express legislation".

It was further announced, by the Honourable J. W. Pickersgill, that the Canadian Pacific Railway (letter addressed to Mr. Pickersgill from Mr. Ian D. Sinclair, President, Canadian Pacific Railways, August 29, 1966, tabled and appended to *Hansard*, Thursday, September 8, 1966),

"is prepared to forego voluntarily perpetual exemption from taxation by the local authorities on our mainline in the prairie provinces in three equal stages: one-third for the year commencing January 1, after legislation is enacted modernizing and rationalizing existing legislation and taking into account, among other things, the effective changed conditions on freight rates otherwise fixed; a further one-third in the succeeding year; the balance in the third year from the commencement of the period as stated".

On behalf of its member municipalities, particularly those located in the four Atlantic provinces and a number in Manitoba, Saskatchewan and Alberta, the Federation is appreciative of the opportunity given here today for the purpose of presenting facts and views relating to the proposed railway legislation. We are doing so in the belief that such adjustment (e.g. the payment of taxes or grants in-lieu-of property taxes in the case of the Canadian Pacific and the Canadian National Railways respectively) forms an integral part of the Bill (No. C-231), now before you for study, which deals with the 'rationalization' of the railway transportation industry.

#### 1. RECOMMENDATIONS:

- (a) The Federation urgently recommends that the proposals with respect to grants in-lieu-of property taxes by the Canadian National Railways, and the payment of property taxes by the Canadian Pacific Railway, be acted upon and put into effect without delay:
  - (i) by the Canadian National Railways, on all such assessable properties situate in the provinces of Newfoundland, Prince Edward Island, Nova Scotia and New Brunswick as of and beginning on January 1, 1967, at an immediate rate of 100 percent;
  - (ii) by the Canadian Pacific Railway, on all such assessable properties (and rights of way) situate in the Provinces of Manitoba, Saskatchewan and Alberta, with adjustment to 100 percent phased over a period of three (3) years, commencing on

January 1, 1967 (as proposed by Mr. Ian D. Sinclair, August 29, 1966).

- (b) Deleted.
- (c) It is also recommended that:
  - (i) insofar as the Canadian National Railway is concerned, such grants be equal to 100 percent of such taxes as would otherwise be payable (i.e. if such properties were privately owned);
  - (ii) in the case of Canadian Pacific Railway properties, such property taxes as are paid as of 1969 be 100 percent of the applicable tax rates at that time.
- (d) Lastly, it is recommended that early discussions and negotiations take place between the railway companies and the several municipalities in order that early agreement can be reached with respect to assessable properties, their value for tax purposes and the rates applicable thereto and that any long term agreements, now in effect, can be re-negotiated in light of the proposed legislation.

2. PRESENT CIRCUMSTANCES:

As an illustration of the effect of such adjustments as are now contemplated and proposed, this Committee may be interested in seeing some specific examples of current grants or property taxes paid as against 100 percent grants or property tax payments\* in a few selected municipalities.

(a) (i) 1965—MONCTON, New Brunswick:

Canadian National Railways—	
Land .....	\$ 1,339,930
Buildings .....	7,869,960
Total .....	<u>\$ 9,209,890</u>
1965 Tax Rate \$2.12/\$100	
Amount due if property was taxed in normal manner .	\$195,249.67
Grants in-lieu-of taxes for 1965 .....	<u>80,000.00</u>
Discrepancy .....	<u>\$115,249.67</u>

(ii) 1965—SAINT JOHN, New Brunswick:

Canadian National Railways—	
Land .....	\$ 2,941,260
Buildings .....	2,297,160
Total .....	<u>\$ 5,238,420</u>
1965 Tax Rate \$3.38/\$100	
Amount due if property was taxed in normal manner ....	\$177,058.00
Grant in-lieu-of taxes for 1965 .....	<u>80,000.00</u>
Discrepancy .....	<u>\$ 97,058.00</u>

\* These latter figures are necessarily an approximation since the actual amounts payable may vary as the result of agreed upon differences with respect to assessable items and values.

25030—2

## (iii) 1965—SYDNEY, Nova Scotia:

Canadian National Railways Property at 78 to 85 percent of market value .....	\$774,200.00
1965 Tax Rate \$4.20/\$100	
Amount due if property was taxed in the normal manner	32,516.40
Grants in-lieu-of taxes for 1965 .....	14,000.00
Discrepancy .....	<u>\$ 18,516.40</u>

## (iv) 1966—HALIFAX, Nova Scotia:

Total Canadian National Railway Properties (excluding the Nova Scotian Hotel) .....	\$ 9,001,400
NOTE: There are buildings of \$4,820,200 assessed value excluded by city assessors as 'not considered for grant' in addition to the \$9,001,400 figure.	
1965 Business Realty and Fire Protection rate \$5.10/\$100	
Amount due if property was taxed in the normal manner	459,071.40
Total grants in-lieu-of taxes 1966 .....	147,860.45
Discrepancy .....	<u>\$311,210.95</u>

(b) (i) The above examples are not unique; all municipalities in the four Atlantic Provinces in which the Canadian National Railways own property in the right of Her Majesty are discriminated against relative to municipalities located elsewhere in Canada.

(ii) As an example of Canadian National Railways policy in regard to grants in lieu of property taxation in the rest of Canada, the case of Winnipeg is cited:

## 1966—City of WINNIPEG, Manitoba:

Total Canadian National Railways properties ..	\$ 7,805,000
Full real property tax rate: \$6.15/\$100 plus certain local improvement levies.	
Full grant in-lieu-of taxes would be just over \$500,000 for 1966 and the Canadian National Railways pays this full amount!	

(c) The impact of such adjustments can be judged even more readily when relating the full value of the adjustments to the current property tax revenue of some of these municipalities:

## (i) MONCTON, New Brunswick:

(a) Real Property Valuation (1964) .....	\$ 138,663,820
(b) Canadian National Railways Property (1965) ....	\$ 9,209,890
Canadian National Railways Property as a percent of total real property .....	6.6%
and as a percent of total tax levy on real prop- erty .....	(b) as a % of (a)

## (ii) SAINT JOHN, New Brunswick:

(a) 1964 Tax Levy excluding Personal property .....	\$ 5,785,957
(b) 1965 Canadian National Railways grant if 100% ..	\$ 177,058
(b) as a % of (a) .....	3.1%

- (iii) SYDNEY, Nova Scotia:
- |  |               |
|--|---------------|
| (a) Taxable Real Property Valuation (1964) .....               | \$ 59,335,200 |
| (b) Canadian National Railways Property Valuation (1965) ..... | \$ 774,200    |
| (b) as a % of (a) .....  | 1.3%          |
- (iv) HALIFAX, Nova Scotia:
- |  |               |
|--|---------------|
| (a) 1964 Tax levy on Real Property .....             | \$ 9,142,790  |
| (b) 1965 Canadian National Railways grant if 100% .. | \$ 459,071.40 |
| (b) as a % of (a) .....                              | 5.0%          |
- (v) In the City of WINNIPEG, Manitoba, where the Canadian National Railways pay full grants in-lieu-of taxes the relative importance of this source of revenue is less (although greater in absolute terms).
- |  |                |
|--|----------------|
| (a) 1966 Total Realty Assessment excluding personal property .....                 | \$ 540,357,130 |
| (b) 1966 Canadian National Railways property on which the full grant is paid ..... | \$ 7,805,000   |
| (b) as a % of (a) .....  | 1.4%           |

(d) The Canadian Pacific Railway pays full taxes except in municipalities in Manitoba, Saskatchewan and Alberta. Calgary, Alberta, is used as an example of the additional revenue which will accrue to a number of municipalities in the Prairie Region as a result of full property tax payment by the Canadian Pacific Railway Company.

CALGARY, Alberta:

- (a) Canadian Pacific Railways—
- |                 |                     |
|-----------------|---------------------|
| Land .....      | \$ 8,713,070        |
| Buildings ..... | 6,854,370           |
| Total .....     | <u>\$15,567,440</u> |
- (b) 1966 Tax Rate \$4.75/\$100
- |  |                     |
|--|---------------------|
| Amount due if property was taxed at the full rate .. | \$739,453.38        |
| Actual Amounts Collected, 1966 .....                 | 49,169.00           |
| Discrepancy .....                                    | <u>\$690,284.38</u> |
- (c) 1964 Total Revenue less Contributions, Grants and Subsidies ..... \$42,332,490 |

(d) (b) as a % of (c) ..

1.4%
------

(NOTE: There has been a reassessment of property in 1965.)

3. THE MUNICIPAL NEED FOR INCOME:

The greatest impact of the proposed legislation, in terms of additional municipal revenues per capita and in terms of new grants—tax revenues relative to total revenues, will take place in a number of municipalities in the four Atlantic Provinces.

- (a) Productivity and personal income in the four Atlantic Provinces lags behind the rest of Canada. The chain of interaction between the



various factors which have caused the existing discrepancy is not known in detail but some of the factors are, at least recognized.

EARNED INCOME PER PERSON  
(1961-64 averages)

	Canada	Atlantic Region	Quebec	Ontario	Prairie Region	British Columbia
Average earned income per person .....	\$ 1,312	\$ 863	\$ 1,139	\$ 1,543	\$ 1,302	\$ 1,483
Regional average as a percent of Cana- dian average ...	100.0	65.8	86.8	117.2	99.2	113.0

Source: D.B.S. *National Accounts*.

- (b) Of the factors that influence personal productivity and, therefore, the major determinant of income per employed person 'investment' in public services is of major importance. The table following outlines the municipal expenditures on selected items in four selected municipalities and the corresponding 'discrepancy' between what the Canadian National Railways now pay in the way of grants in-lieu-of taxes and what it would pay under a directive to pay 100 percent grants in-lieu-of property taxes.

MUNICIPAL EXPENDITURES COMPARED TO INCREASED  
PROPERTY TAX REVENUE

	Moncton	Saint John	Sydney	Halifax
A. Municipal current expen- ditures (1964) on educa- tion .....	\$ 1,995,350	\$ 3,411,537	\$ 1,441,082	\$ 4,469,163
B. Discrepancy between pres- ent and 100 (1965) percent grants in-lieu-of taxes ..	115,250	97,058	18,516	311,211
C. B. as a % of A. ....	5.8%	2.8%	1.4%	6.8%
D. Municipal current expen- ditures (1964) on public works .....	606,409	821,185	308,373	1,280,402
E. B. as a % of D. ....	19.0%	11.8%	6.0%	24.3%

Sources: Municipal Statistics, New Brunswick, Department of Municipal Affairs, *1964 Annual Report of Municipal Statistics* (Fredericton, 1965); Nova Scotia, Department of Municipal Affairs, *Annual Report of Municipal Statistics, 1964* (Halifax, 1965).

(i) *Investment in Education:*

The Economic Council of Canada mentions a number of municipal expenditures which can improve personal and per capita productivity and income. Investment in Education is considered the most important of the investments and municipalities agree;

\*Economic Council of Canada, *Second Annual Review, Towards Sustained and Balanced Economic Growth*. (Ottawa, 1964), particularly Chapters 4 and 5.

that expenditures on education pre-empt over 39 percent of these municipalities' revenue is evidence of this fact. As the table above shows, increased revenue from Canadian National Railways property can be of significant assistance in this important area of expenditures.

(ii) *Investment in public works:*

Unlike education, investment in 'public works' too often depends on what is 'left-over' after expenditures on education and fixed costs have been satisfied. It is recognized, however, that the municipal investments in social capital (roads, bridges, utilities, sanitation, etc.) are important factors influencing investment decisions in the private sector of the economy. The above table illustrates the great significance of increased revenue, from Canadian National Railways property taxation, in relation to expenditures on 'public works'. Assuming that the increased revenues would be devoted to public works, there could be expected a chain reaction of private investment and economic development; this is precisely what is needed in Canada is to have a nationally balanced and productive economy.

4. CONCLUSIONS:

The adjustments contemplated with respect to Canadian National Railways' grants in-lieu-of property taxes and Canadian Pacific Railway property tax payments are matters of utmost urgency; they are also essential if we are to encourage and expect the healthy development of those communities that will be affected. Such adjustments will result in better land use, improved services and a climate of renewed confidence in the future.

The Canadian Federation of Mayors and Municipalities encourages early approval of the proposals under discussion. We also wish to express once again our sincere appreciation for this hearing.

Respectfully submitted.



HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966

STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 31

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MONDAY, OCTOBER 31, 1966

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Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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WITNESSES:

*From Coal Operators Association of Western Canada:* Mr. Gordon Blair, Counsel; Mr. William C. Whittaker, Manager; Mr. Frank J. Harquail, President, Coleman Collieries Ltd.; Mr. George B. Dutton, Transportation Analyst, R. L. Banks Associates Inc.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:*

and

Mr. Allmand,	Mr. Horner ( <i>Acadia</i> ),	Mr. McWilliam,
Mr. Andras,	Mr. Howe ( <i>Wellington-</i>	Mr. Nowlan,
Mr. Bell ( <i>Saint John</i>	<i>Huron</i> ),	Mr. Olson,
<i>Albert</i> ),	Mr. Jamieson,	Mr. Pascoe,
Mr. Byrne,	Mr. Langlois	<sup>4</sup> Mr. Prittie,
Mr. Cantelon,	( <i>Chicoutimi</i> ),	<sup>3</sup> Mr. Reid,
<sup>1</sup> Mr. Côté ( <i>Nicolet-</i>	Mr. Legault,	<sup>2</sup> Mrs. Rideout,
<i>Yamaska</i> ),	Mr. MacEwan,	Mr. Sherman,
Mr. Deachman,	<sup>5</sup> Mr. Mather,	Mr. Southam,
		Mr. Stafford—(25).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Lessard on October 28, 1966

<sup>2</sup> Replaced Mr. Boulanger on October 28, 1966

<sup>3</sup> Replaced Mr. Roch on October 28, 1966

<sup>4</sup> Replaced Mr. Fawcett on October 28, 1966

<sup>5</sup> Replaced Mr. Schreyer on October 28, 1966

## ORDER OF REFERENCE

FRIDAY, October 28, 1966.

*Ordered*,—That the names of Mr. Côté (*Nicolet-Yamaska*), Mrs. Rideout, Messrs. Reid, Prittie, and Mather be substituted for those of Messrs. Lessard, Boulanger, Rock, Fawcett and Schreyer on the Standing Committee on Transport and Communications.

*Attest.*

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*



## MINUTES OF PROCEEDINGS

MONDAY, October 31, 1966.

52

The Standing Committee on Transport and Communications met this day at 3.45 p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Côté (*Nicolet-Yamaska*), Deachman, Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, Mather, McWilliam, Pascoe, Prittie, Reid, Southam and Mrs. Rideout (18).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport and Mr. Ballard, M.P.

*In attendance: From Coal Operators Association of Western Canada:* Mr. Gordon Blair, Counsel; Mr. William C. Whittaker, Manager; Mr. Frank J. Harquail, President, Coleman Collieries Ltd.; Mr. George B. Dutton, Transportation Analyst, R. L. Banks Associates Inc.

The Chairman introduced the witnesses representing the Coal Operators of Western Canada and asked Mr. Blair to make the opening remarks.

The Chairman invited the Members of the Committee to examine the witnesses.

There being no further questions, the witnesses retired.

The Chairman tabled a brief from the Research Council of Alberta and a letter from Staff Members of the Faculty of Applied Science and Engineering, University of Toronto.

On motion of Mr. Jamieson, seconded by Mr. Southam, *Resolved*,—That the Coal operators' brief and the brief from the Research Council of Alberta, and the letter from Staff Members of University of Toronto be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendices A-18A, A-19, and A-20).

At 5.15 p.m. the meeting was adjourned until 9.30 a.m., November 1st.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

MONDAY, October 31, 1966.

● (3.40 p.m.)

The CHAIRMAN: Gentlemen, I see a quorum. We have before us today the brief of The Coal Operators' Association of Western Canada. To my immediate right is Mr. Gordon Blair, consul, who will introduce the other witnesses who are before us.

Mr. GORDON BLAIR (*Counsel for The Coal Operators' Association of Western Canada*): Mr. Chairman and gentlemen, on my immediate right is Mr. William C. Whittaker who is the Manager of the Coal Operators' Association of Western Canada, which represents the three producing mining companies in the Crowsnest Pass area. Mr. Whittaker has held his present position for 20 years. Those of you who have read the brief will have noted that the price of the coal at the mine is \$6.40 per ton; the freight rate is \$5.28 per ton, so you will all readily understand why Mr. Whittaker has become an expert in the field of transportation and freight rates.

Next to Mr. Whittaker is Mr. George B. Dutton of Washington. Mr. Dutton is a professional engineer and a transportation analyst and economist. Since the war he has been exclusively engaged in this activity. He has been employed by two American railways. He has also been employed by private consultants and government agencies in development surveys for transportation in South America. For several years he has been associated with the firm of R. L. Banks & Associates Inc. This was the firm which some of you will remember was employed by the governments of the prairie provinces to do an analysis of the Crowsnest Pass grain rates. Some may recall that this firm reduced the original railway estimates of deficits from the order of \$70 million to a minimal figure which was accepted by the royal commission. Mr. Dutton is responsible for the preparation of the cost analysis which appears at page 8 of the brief.

I do not intend to read the brief but perhaps one or two brief comments would be of assistance. The recommendations made by the coal operators are summarized at pages 11 and 12 of the brief. The first recommendation is that the maximum rate formula proposed by clause 336 of the bill should be revised so that it will be tied to the actual costs of moving commodities rather than to a fictitious cost derived from using 30,000 pounds as the key weight. The brief indicates that coal is moved now in cars of an average of 142,000 pounds.

The second recommendation is that the contribution for overhead, which in clause 336 is established at 150 per cent over variable cost, should be eliminated and that there should be substituted in the case of every commodity by rail a contribution to overhead which is commensurate with the value of the com-

modity moved and volume of traffic which it develops and which in the case of low rated bulk commodities such as coal we submit should be a very much smaller figure than 150 per cent.

The third recommendation expresses the concern of this association about the inability of shippers to approach the new commission to achieve an adjustment of rates until a considerable time has elapsed, as fixed in subsection (11) and (15) of Section 336. This is said even though any prospect of relief for this industry under the formula would be academic.

The fourth suggestion is that Subsection (16) of Section 336, which now provides that some time after a period of five years from the passage of the legislation the maximum rate formula should be reviewed by the new transportation commission. It is our submission that this is far too long a period when regard is had to the fact that such a review will undoubtedly take a considerable period of time and would have to be followed by Parliamentary action. It does not seem reasonable to say that any effective action following review might take a period of eight or even 10 years after the passage of the act. We, therefore, suggest that the commission be directed to review the legislation in a period of not less than three years in the same way as is provided for the review of the Crownsnest rates in Section 329.

My final comments may appear presumptuous to you, but if I may say so, you have before you two experts in the field of transportation in the persons of Mr. Whittaker and Mr. Dutton. It has been said at other times I understand before this Committee that there are no captive shippers who can be discovered in Canada. It might be helpful for the Committee to hear Mr. Whittaker's comments on that.

It might also be helpful to have the benefit of his extensive experience in the negotiation of freight rates with the Canadian railways.

Mr. Dutton, on the other hand, has directed himself to the analysis of railway costs, and he certainly is in a position to offer helpful information on this aspect of the legislation and, indeed, on the formula which has been proposed.

Now, in making my introductions, I am sorry that I failed to introduce to you Mr. Frank Harquail who is a real coal operator, the president of Coleman Collieries who, fortunately, arrived in the city this afternoon in time to take part in this presentation.

With those few words of introduction and comment, we are at your disposal to answer your questions.

The CHAIRMAN: Thank you, Mr. Blair. The meeting is now open to questioning of the witnesses on the brief and the summary presented by Mr. Blair.

Mr. DEACHMAN: Mr. Chairman, I would like to ask a couple of questions following along the lines of Mr. Blair's remarks concerning the experience of the witnesses in the movement of coal in the west and the position of captive shippers. If I understand the position of western coal shippers, there is a struggle at the present time to get into an overseas market across the Pacific, into Japan, for instance, and this hinges very much on freight rates and

whether or not we, in Canada, are going to be able to move coal over Canadian lines to the seaboard and to export it from Canadian ports. It hinges on what the laid-down price will be abroad. In competition with us, in port, are United States lines which, perhaps, might like to move that coal out to seaboard on United States lines. Also in competition with us is Australia and, perhaps, other countries which could ship to those same markets. This, at the moment, is immensely important to Canada.

I know that you gentlemen are involved in this because the outcome of this movement will mean very much to the economy of western Canada. Without attempting to circumscribe any remarks you might like to make on this, I would like to ask you to comment.

Mr. William C. WHITTAKER (*Manager, Coal Operators' Association of Western Canada*): Mr. Chairman, Mrs. Rideout and gentlemen, the members of the Coal Operators Association have been in the export business since 1958. At the present time we are shipping about 1,000,000 tons of coal per annum to Japan. We are attempting to increase these shipments to about 3,000,000 tons a year over a ten year period. To do this we must have freight rates which will enable us to compete on an economic basis with coal from the United States, Australia, Russia and China.

We have no problems in the matter of cost of productivity. Our problem is one solely of the cost of transportation because we are located 560 to 700 miles from seaboard. This is our real problem.

At the present time, because of the high cost of transportation, our coal requires a subvention or freight rate assistance of some \$2.73 a ton. Over a period of five years we have been attempting to reduce and gradually eliminate this subvention. We can only enter into long-term contracts on a large scale if we can eliminate this subvention. So the difficulty lies in the cost of transportation.

The question of negotiation with the railroad was mentioned. We have been discussing this question of rail freight rates off and on for a matter of two years with the CPR. I use the word "discussion" advisedly, because a captive shipper does not negotiate with the CPR. He simply goes to the railroad and presents his proposal; he is asked to supply data as to costs, markets and so on, and then he is told, well, we will consider the matter and you will receive a letter a week or ten days hence, and we will tell you what we are prepared to do. The answer invariably has been that the rates are already low, non-remunerative, and they are sorry that there is nothing they can do for him. This is the extent of negotiation at the present time. We have had one development, and that is that we have had an increase in freight rates of 15 cents per ton a year ago, in October.

So far as being a captive shipper is concerned, I say unequivocally that we are captive shippers in every sense of the word. We are located on one railway; our distances to market are such that there is no possibility of shipping by any other railway or by truck, so that I think that by all the definitions contained in this bill we are certainly captive shippers.

Mr. DEACHMAN: May I ask you, sir, is it possible to move coal from Michel to seaboard by the Great Northern?



Mr. WHITTAKER: No. There is, at the moment, no connection with the Great Northern. The distance from Michel to a connection with the Great Northern would be about 75 miles, but there is no road at the present time.

Mr. DEACHMAN: So it is not possible for you to negotiate with the Great Northern as an alternate route to the Canadian Pacific?

Mr. WHITTAKER: There is that possibility, except that there might be a few obstacles; one, that a permit would be required from the British Columbia government to build a railway or, alternatively there would have to be permission from the Board of Transport Commissioners to build a railway, and we are not sure of either of those situations at the moment.

Mr. PRITTIE: I have a supplementary question, Mr. Deachman. Have you any impressions whether the CPR care whether or not your business could go to the Great Northern, or whether they should retain it? Do they consider it a nuisance?

Mr. WHITTAKER: I would not think so. I could illustrate it by saying I have talked to railway officials and they always maintain that a certain piece of business is unremunerative, but when I talk to some railway people in the lower echelons—the operating people—and say, well, but you do not want this business, they say, do we not? If the CNR gets ten cars ahead of us in the grain movement, we soon hear about it from Montreal. I think this is the answer to your question. I am quite sure that all our studies indicate that the grain movement is remunerative to the C.P.R. regardless of what they may say.

Mr. DEACHMAN: Can you comment on the question of one shipper handling this whole traffic from the mine right straight through to Japan, let us say, because I have heard it said that unless the carrier is able to get the rail business, the harbour business and the ship business, then it is not profitable to the carrier to get into the business, because they must be able to obtain some profit on each operation or one of the operations is not sufficiently profitable for them to enter into it. Could you comment on this?

The CHAIRMAN: Mr. Deachman, we are going a little far afield from our reference. You are looking for information and this is a question and answer time. The information you seek, does not come within the scope of this bill, other than the rail transportation to harbour. We are not involved in harbour shipping from the port of Vancouver to Japan. I would like you to restrict yourself to the area from the mine to the harbour; never mind the harbour to Japan.

Mr. DEACHMAN: Mr. Chairman, the whole business of the movement of coal from western Canada to seaboard and its movement abroad I do not believe and I think Mr. Whittaker will concur—can simply be dealt with on the basis of the movement from the mine to seaboard.

The CHAIRMAN: We are dealing with the national transportation policy, not with international transportation policy.

Mr. DEACHMAN: Mr. Chairman, I think when we come to consider national transportation policy, we are going to have to consider some pretty bold moves.

The CHAIRMAN: Not as long as we are dealing with the national transportation bill, Mr. Deachman. Please confine yourself to those terms.

Mr. DEACHMAN: Mr. Chairman, I would like to see it firmly on record as to what the scope is of western coal movement and what the problems are, because I think it is important to the movement of coal in western Canada. I think it is very closely linked to overseas traffic and to the eventual flow of the commodity right from the mine straight through.

The CHAIRMAN: At the moment I am asking you to confine yourself to the movement of coal to the port.

Mr. DEACHMAN: Mr. Whittaker, is there any further comment you want to make on the questions I have raised?

Mr. WHITTAKER: Our economic studies indicate that the rail haul can stand on its own feet and make a profit.

Mr. DEACHMAN: This was the point I wanted to make.

The CHAIRMAN: You got your answer, Mr. Deachman.

Mr. JAMIESON: Mr. Whittaker, in looking over this submission of yours, I am just wondering if you have read the evidence that was given here by the two railways companies, but perhaps I can refresh your memory on it. In effect, they said in a case such as yours, you were not a captive shipper. They were not specifically referring to your company, but in cases such as this, that there was what they described as the competition of the marketplace; in other words, that they were obliged to give you a particular rate because, in fact, this was the only way in which you could function and the only way in which they could get your business. They say that under those terms that you are not, in fact, a captive shipper. I wonder if you would care to comment as to whether you, in any way, share their view in this matter?

Mr. WHITTAKER: I might say a word about it, but I think Mr. Dutton can elaborate on that question. I would just like to say one thing. Our business has remained at the same level now for the last four or five years. If we are going to increase this business, as we contemplate and as the brief says, we must eliminate this factor of government subvention. This has been our aim for five years. We cannot make a long term contract on any scale without doing that. We have been unable to do so yet. I think Mr. Dutton could answer the balance of the question.

Mr. GEORGE B. DUTTON (*Transportation Analyst, R. L. Banks & Associates Inc.*): I had not read the railways specific testimony.

Mr. BLAIR: Perhaps I could intervene here to say that the testimony of the CNR only became available in our office today, and the CPR testimony, so far as I know, is not yet transcribed.

Mr. JAMIESON: I think I am correct in the statement that I made, that they basically made the point that there are many people who do not have any other means of transport available to them or who yet cannot plead legitimately to being captive shippers because, in fact, the position in the marketplace, the need of the railways for goods to carry and so on, puts the shipper in a bargaining position with the railways.

Mr. DUTTON: This is a common enough situation particularly for traffic in commodities such as coal, and in our submission beginning on page 6 you will notice at the bottom of this page I mention that the coal rates are low in

comparison with costs and, at the top of the page, we point out that this has been to the railways own interest. We mention just this kind of thing, the market competition.

In our next paragraph we point out that unfortunately while this competition is generally effective and certainly is the reason for coal rates usually wherever there is heavy mineral movement, not just in Canada but also in the United States and elsewhere, this is the reason the rates are low, but in specific cases this mechanism does not always seem to be effective. I would assume that the reason is that the determination of costs is open to some argument, and it also is time consuming. The determination of any numerical value in the market competition is very difficult, and there is thought to be a little bit of bluff there. The railway, in the case of the western coal operators, may believe its costs to be higher than we think they are or that we think they need be with efficient operation—and they also may be very skeptical about the representations that the coal operators have made about their need for a lower rate. It is to the advantage of the railway to maintain the rate at its present level, if they can still keep the business. They apparently are not convinced that a reduction is necessary to retain this business.

Mr. JAMIESON: Applying your recommendation here, that is that the matter be changed, the whole formula, in cases such as yours, the intent of this bill—again I am paraphrasing, but I think I am reasonably close to the line—is to put the railways and put the whole business of freight movement and so on on a competitive basis and to let the marketplace be the determining factor. It seems to me, on just a fast reading of your proposal at the end of your brief, that what you are really saying, in effect, is that each individual commodity shipper should have the right to come in with his own particular kind of proposal. In other words, would not this get the proposed new Board of Transport Commissioners or whatever the official name of it is, right back in the business of regulating rates for perhaps a score of companies in comparable positions to your own? And is it not then more or less in defiance of the basic objective of the bill?

Mr. DUTTON: May I speak to that. Mr. Jamieson, I would imagine there must be more than one case certainly, and there would be shippers, some with good reason and some with perhaps frivolous reasons who would believe themselves to be in a prejudiced position, who would bring their cases to the commission and if their complaint was trivial the investigation of the situation would show this to be the case. If their complaint was not trivial then I should think that the fact the marketplace has operated imperfectly has to be recognized, and if their complaint is justified they deserve some sort of remedy.

● (4.10 p.m.)

Mr. JAMIESON: I cannot imagine anyone bringing forward such a complaint and genuinely feeling himself that it was trivial. It may be that the board might dismiss this but I do think it would eliminate a lot of feeling that the board was in some way or other acting against the interest of particular shippers. In other words I think this proposal would open up the whole plan again of the business of particular shippers submitting their individual problems to this new commission. I repeat that this seems to me to be at odds with what we are trying to



achieve. I am not saying for a minute that perhaps you do not have a legitimate case; what I am saying is that it certainly is not in line with the principle that this bill enunciates.

Mr. DUTTON: Well, as I understand the purpose of the bill, it is to give economic forces and competition as free a play as possible, and this certainly is wholesome. I do think in providing, as the bill does, an avenue of remedy for those instances where competition is not effective the bill is being realistic, and we are quite confident that there are cases where competition is not altogether effective which are not covered by the bill as drafted. How many complaints or how much of a workload this would generate I do not really know how to judge. I think perhaps Mr. Whittaker or Mr. Blair, who are more familiar with the Canadian economy, would be ready to comment on that.

Mr. JAMIESON: I have one last question, if I may, Mr. Chairman. Assuming section 336 stands as it does at the present time and assuming the passage of this bill, would you in fact apply to be declared a captive shipper.

Mr. WHITTAKER: I do not see that it would do us a particle of good, to be perfectly frank and honest.

To answer your previous question, I can go back some years to where we have had some bitter experience when we first started to develop the competition of oil and gas and we had discussions with the railways about lower freight rates, and because the railways would not move, for reasons best known to themselves, we lost the business. After we lost the business the railroads told us that they would be prepared to do something. We have had some actual concrete experiences where we have lost substantial business just by this attitude. On the other hand, where there have been two railways involved, it has been very easy in most cases to get a reduction in rate where there appeared to be some competition with some other fuel, American fuel, oil or gas, or what have you. But this is somewhat like a poker game and sometimes it is pretty difficult to convince these people that you really have a problem. I would just like to say that in this brief—I think it is on page 6 or 7—it is pointed out that the average contribution over and above the variable cost in the United States is 7 per cent on coal. You notice that in this brief our study shows that the contribution is around 84 per cent and 107 per cent. Now, surely this is not a case of selling spools of thread or something like that; this is big tonnage. Perhaps while the margins may be small certainly the tonnage is big and, as the brief points out, in the United States, where there is a great deal of competition, the railways have considered hauling coal as a bread and butter proposition, and they have been content to take small mark-ups to haul this very large tonnage. I think this is our situation and nobody can convince me that we are not captive shippers in every sense of the word.

Mr. JAMIESON: I am sure some of the other members will be pursuing the same line of questioning.

The CHAIRMAN: Mr. Whittaker, following that line of questioning and with regard to this figure of \$5.28 on page 8, has the CPR ever offered you substantially lower rate than the \$5.28 you have there?

Mr. WHITTAKER: During discussions with one company, I believe the CPR did offer a somewhat lower rate and then turned around and withdrew it. But



this was not inviting. As a matter of fact this is hearsay; I have no personal knowledge of the CPR offering anything less than \$5.28.

Mr. FRANK J. HARQUAIL (*President, Coleman Collieries Ltd.*): I am an individual shipper. This year my company will ship 550,000 pounds. At no time in the last five or six years has the railway offered me any possible reduction; instead, it has been a threat of further freight increases.

The CHAIRMAN: I asked this question because we have some CPR representatives here. I am sure they will take this back to Montreal with them and perhaps when they are recalled they will have some figures for us.

Mr. ALLMAND: Mr. Whittaker, earlier we had a brief from Shell Canada Limited in which they pointed out that they had petitioned the House of Commons to incorporate a company called Commercial Solids Pipeline Company, and in their brief they suggest that this pipe line, which would be a solids pipe line, could be used for the transport from Alberta to the coast of sulphur, coal, and possibly potash. Have you investigated this possibility of a solids pipe line at all.

Mr. WHITTAKER: Yes sir, we have. We have supported, financially, research by the Alberta Research Council who have probably done more work in this country than anybody else on the movement by pipe line of solids, both in the slurry form and in the capsule form. There are in existence a number of coal pipe lines. The longest I know of that has ever been in existence was the one in the state of Ohio; it was 108 miles long and it operated for five years. It was shut down because of negotiations with the railways. The railways reduced their rates by something like 35 per cent on condition that this pipe line be shut down. However, we are 560 miles and 700 miles from seaboard, so you see the magnitude of the problem. It is a very large investment, and in order to make it economic we are told for this length of pipe line we would have to have something between two and three million tons of coal a year. However there are some very real technical problems in connection with a pipe line for our product. First of all to have a really cheap pipe line transportation you need one origin and one destination. We have three origins, fairly widely separated but one destination. Secondly, you must have a continuous flow of coal 365 days of the year. The next objection is that you must carry coal either in water or in some other liquid. In order to move it through the pipe line in the form of a slurry you have to grind it very finely to minus 14 mesh, which is very small; also, to carry it in a pipe line, you would probably have a water content of something like 40 to 45 per cent. When you fine grind coal like that it is very difficult and expensive to de-water. You could not transport 40 or 50 per cent water to Japan, you see. You must de-water it to at least 5 per cent moisture. If you were shipping it into a utility plant that would be somewhat different because they have even fed coal in slurry form into boilers with 30 per cent moisture. With us it is a different proposition. We are dealing in metallurgical coal that has a coking quality. The very fact that you fine grind it and put it in this powdered form would have a bad effect on its coking quality. Secondly, if you de-water it sufficiently to make it economic for ocean transportation it simply means that when you get it on the dock in Japan it is a very difficult product to handle. It is not quite as fine as talcum powder but it is getting along

in that order. So, these are some of the difficulties which would be involved in pipelining coal and, we feel it would not be economic because of the extensive preparation of the coal at one end, the drying at the other, the effect it would have on the coking quality, the fact that you have several origins, a large investment and the necessity of continuous flow 365 days of the year.

● (4.20 p.m.)

Mr. ALLMAND: Then, I presume that you dismiss the pipe line as a prospective or an alternative means of transport?

Mr. WHITTAKER: Well, we feel it is a long way down the road in so far as our particular business is concerned.

Mr. ALLMAND: I see. Had you been in touch at all with the people who are backing this commercial solids pipe line company. Shell Oil is behind it and they say that they would be willing to finance it; \$50 million is the price they have put on it in their brief. They mentioned \$50 million.

Mr. WHITTAKER: Well, I am not sure how Shell Oil Ltd. plans to move this sulphur; whether they intend to move it in water or they intend to move it in molten form. This is possible, too.

Mr. ALLMAND: They do not mention that.

Mr. WHITTAKER: If it is moved in the molten form you can see that there is no additive. It is only a matter of insulating the line, reheating at certain points, and the sulphur would flow. Do you see what I mean?

Mr. ALLMAND: Yes.

Mr. WHITTAKER: In any case the sulphur, I would think, would be a less difficult material to handle from the point of view of the ultimate user.

Mr. ALLMAND: Another question, Mr. Whittaker: What is the possibility for unit trains? I think you mentioned unit trains in your brief. What is the prospect for these trains in the future in reducing costs and so forth?

Mr. WHITTAKER: Well, our coal moves largely in solid train loads now.

Mr. ALLMAND: Oh, it does.

Mr. WHITTAKER: This is one of the things which makes it a pretty economic movement. Hence, on the other hand, so long as the volume of coal stays at its present level the railroad will use it to some extent to fill out other trains. If we get up to a tonnage of something like two million tons a year this means that special trains must move practically at all times and, then, of course, you get a unit train movement.

Mr. ALLMAND: This is a strong possibility.

Mr. WHITTAKER: Yes, I think it is. It all depends whether we can get a satisfactory rate. But, within a month or two now we will have storage at Port Moody—ground storage—which would enable freight trains to move on time schedules, to be dumped immediately they arrived at Port Moody and the cars returned to the mines. As you can see this makes a very economic movement in so far as the rolling stock is concerned, and it makes the best possible use of the motive power.

Mr. SOUTHAM: Mr. Chairman, Mr. Whittaker in his earlier reply to Mr. Deachman mentioned something about the fact that since they were enjoying a subvention it made it difficult to negotiate long-term contracts. I would like to have you explain that a little further. Does this interfere with your marketing of coal as far as getting good marketable or equitable prices for it are concerned? Would you explain that a little further to the Committee.

Mr. WHITTAKER: This does interfere with the marketing. There is always the problem of what government policy may be in the future; whether the government might decide in their wisdom to reduce the subvention or to do away with it entirely. So, you can hardly base long-term, large-scale, commitments using subvention. Now, we have consistently over the years reduced the cost of subvention per ton. We would like to do away with it entirely. I think the government's present thinking is that they put enough money into subvention now. They have been prepared to go along with us to date but I am quite sure that they would not let us increase our exports to any great extent and continue to pay larger and larger amounts of subvention.

One point I would like to clear up is this. It is sometimes said by people, perhaps, who have not been well informed, that the Japanese steel industry is being subsidized by cheap Canadian coal at the expense of our government. This is not so. Forty per cent of the coal which is imported into Japan comes from the United States; over 40 per cent comes from Australia; there is about eight to 10 per cent from Russia; six per cent from Canada, and some small amounts, perhaps two per cent, from China. Now, we must meet the competition of all of these various coals, so one can hardly say under those circumstances that the Canadian government is subsidizing the Japanese market.

Mr. SOUTHAM: It was mentioned earlier that it was possible competitively to route a shipment through the Great Northern, and a distance of 75 miles was referred to. Has there been any particular study made with this alternative, or any moves towards accomplishing this.

Mr. WHITTAKER: Yes, there have been some economic studies on the building of a line like that but, as I said before, the question arises about permission by either the British Columbia government or the government of Canada and whether they would grant a permit to have a line of that kind built.

Mr. SOUTHAM: I am not familiar with the terrain this line would go through. Would there be other potential shippers or people adjacent to that line who could also utilize it as a shipping route.

Mr. WHITTAKER: Well, now, as far as our own coal companies are concerned this would apply to only one company. The closest one to that would be about 40 miles east. The coal would have to move over the C.P.R. to join on that Great Northern line. So far as other commodities are concerned, yes, there would be lumber and plywood and various other products which could move over a line of that kind.

Mr. SOUTHAM: Mr. Chairman, Mr. Whittaker is on the record for definitely stating he feels that his firm is a captive shipper. Now, the submission mentions The Coal Operators' Association of Western Canada. Could you tell us in your opinion how many other captive shippers you would be representing here today?



The CHAIRMAN: Mr. Southam, if you will note in the opening remarks of Mr. Blair, at the first page there are only three—the Coal Operators' Association of Western Canada is comprised of the three companies on page 1: The Canmore Mines Limited, Canmore, Alberta; Coleman Collieries Limited, Coleman, Alberta and The Crow's Nest Pass Coal Co. Ltd., Fernie, British Columbia.

Mr. SOUTHAM: Well, then, I would like to ask Mr. Whittaker this question. Would you suggest that these three companies which you represent would be captive shippers, in your estimation.

Mr. WHITTAKER: Without any doubt whatsoever.

Mr. SOUTHAM: Thank you. That is all.

Mr. REID: Mr. Whittaker, I have read your brief and your recommendations very carefully and I personally as one who comes from an area which also deals in bulk commodities have no real objections to more stringent investigations into the rates which are fixed for captive shippers. Basically, would you agree that anybody who ships a bulk commodity like coal or iron ore is a captive shipper because he can, at present, ship only over rail lines.

Mr. WHITTAKER: That is right.

Mr. REID: Now, would it be possible, Mr. Chairman, to ask the Minister if he would have any comments on any of these proposed suggested amendments to his "baby." I am particularly interested in the third recommendation and fourth recommendations which would allow the captive shipper to apply to the board at any time to fix a rate and, secondly, that the time in which a shipper could ask for a review of the existing rates, once the bill comes into operation, be reduced from five years to three years.

● (4.30 p.m.)

Mr. PICKERSGILL: In the first place, I do not think I could agree with Mr. Reid's definition of a captive shipper in relation to the legislation. A captive shipper, under this bill if it becomes law, would be only some shipper who, believing he had no alternative competitive mode of transport, asked to be so designated, and to be given a rate. It would be a question in my mind whether many shippers of bulk commodities would put themselves in that position.

The term "captive shipper" as used in the bill is in other words, a subjective term, not an objective term. The board would undoubtedly decide in the case of many of these shippers of bulk commodities that they had no other practicable way of shipping except by rail; but I would think that most of them have a bargaining power with the railways sufficiently great so that they would not put themselves subjectively into the position that makes them a captive shipper under the law. That is why I have said I have found it quite difficult to feel quite sure that I know of any shipper who would in fact choose to make himself a captive shipper under the law.

I apologize for not being here earlier but I was representing the Prime Minister in the house this afternoon and our formal proceedings went on rather longer than I had hoped. I could not be here earlier, so I think I would like to think a little about the question Mr. Reid has raised before I was too categorical about it. If it is true that a railway line could be built from Fernie or near Fernie to connect with the Great Northern, then, of course, the mine that would



use that railway exclusively by definition in the bill, would not be a captive shipper. That question is not directly related, of course, to the legislation itself but I thought that I just ought to make the terminology clear.

There is, of course, another protection for shippers besides the opportunity of going to the commission and saying that they want to be declared captive shippers and to have the rate established. That is what we are proposing to put in the appeal provision, that a shipper can say that it is not in the public interest for the railways to propose a rate which they may feel is unreasonable in the circumstances. That appeal provision is put in the legislation precisely because it is felt that there would be circumstances where the maximum rate formula would not provide any very effective remedy but that there should be some alternative way of shippers proceeding.

Mr. REID: Would you say, then, sir, that this section of the bill is an attempt to balance the bargaining powers of the two parties to a shipping agreement?

Mr. PICKERSGILL: Yes, that is right. I think one of the witnesses earlier on said that what we are trying to do in this bill, in the maximum rate formula, is to create an artificial competitor where there is not a real competitor. That is why the 30,000 pounds were taken, because that is a normal or typical load for a truck. That is why, also, the shipper who normally ships larger quantities than 30,000 pounds is to get some of the savings under the maximum rate formula that would result from shipping at a 100,000 pounds and so on. It is felt that it does not cost the railways to move a car with 100,000 pounds three times as much as a car with 30,000 pounds, and that all of that advantage should not go to the railways if the fixed rate is applied.

Mr. REID: Mr. Chairman, perhaps we could have Mr. Whittaker comment on that because a good part of his brief is particularly concerned with this specific problem of the different poundage which the railway cars can accept as opposed to the truck rate which Mr. Pickersgill just used.

Mr. WHITTAKER: This brief, Mr. Chairman, I think covers the question of the 30,000 pounds pretty thoroughly. We have simply said that our investigation showed that the variable costs run something below \$3 a ton. If you add 160 per cent to that, it would then bring the rate to \$7.15 as compared with the existing rate of \$5.28. On the other hand, if we were to ship in 30,000 pound cars, I think it is Mr. Dutton's opinion that the costs would be doubled over the use of cars holding 142,000 pounds or 71 tons, so that this would then get the rate up around \$15 a ton.

The CHAIRMAN: Mr. Whittaker, you mention \$15 and 150 per cent. That would be so unless you can negotiate a rate yourself with the railways or unless the rate is set by the commission.

Mr. WHITTAKER: Yes.

Mr. REID: I do not think that the way you set it out, Mr. Whittaker, is particularly my interpretation of the way the formula is to be interpreted.

The CHAIRMAN: What is it, Mr. Reid? I think it is difficult to understand your point.

Mr. REID: I was just saying that I did not think this was the proper interpretation of the legislation, as it was set out.

The CHAIRMAN: Well, that is your opinion against the witness' opinion.

Mr. CANTELON: This is not my interpretation of it either. I thought you took your variable costs on the 30,000 pound basis and then you added your 150 per cent. This is just automatically the way it is. They are not moving it on the 30,000 pound basis; they are moving it on 142,000 pound basis.

Mr. PICKERSGILL: Then you get half the savings, moving it at 142,000 pounds instead of 30,000. That is part of the formula.

Mr. BELL (*Saint John-Albert*): I think that the brief is perhaps not complete, that Mr. Dutton has made the arithmetical calculation and he has computed that within certain limits the formula as expressed in the bill would go up at a rate of approximately \$14 to \$15 a ton for coal.

Mr. PICKERSGILL: Mr. Blair, if I might ask a question. Is that based on the assumption that this is a straight escalation from the 30,000 pounds and no savings?

Mr. DUTTON: No, it is not, sir, although I may have misinterpreted the bill in one respect and perhaps you or the chairman can clarify this point. When traffic is moving in heavier carloads than 30,000 pounds, the bill provides that increments of 20,000 pounds be considered so that, if traffic were moving in carloads of 95,000 pounds you would go 30 plus 60 which is multiples of 20 to 90,000 pounds. Apparently you would make a calculation of what the variable cost would have been had it moved in a 30,000 pound car and you make a calculation of what the variable cost would have been had it moved in a 90,000 pound carload; then half of the difference is taken as a reduction from the rate calculated on the basis of the 30,000 pound cost plus the 150 per cent mark up. Do I interpret it correctly?

● (4.40 p.m.)

Mr. PICKERSGILL: I would prefer to have technical advice on that one.

Mr. COPE: Yes, that is correct.

Mr. DUTTON: This is the assumption I made. Mr. Blair perhaps dignified it a little too much by saying «calculations». This is rather an estimate based on my familiarity with this coal movement and the studies we previously made. I did not go back through all our computations and recalculate them on the basis of a 30,000 pound carload because it would have been very time consuming and I did not have the time. However, I do know that it is obvious that if you ship 30,000 pounds in a carload instead of 140,000 pounds, you would need four and a half times as many cars. You would have to move those cars back empty; you would have to own them; you would have to repair them and all that sort of thing. Therefore, I think I am being very conservative in saying that the costs associated with cars would have to go up four and a half times, whereas the costs that are measured directly by tonnage, of course, would not go up. I think I am being very conservative in saying that even with giving back half the savings to the shipper the result of the application of this formula would be to more than double the rate as compared to what you would get by calculating it from the actual shipping weight.

Mr. WHITTAKER: Certainly, sir, the loading of the cars looms very large in the eyes of the railroad. If we consistently load cars by several tons below

capacity we would very soon and have heard from the railways very quickly about this. Just in the matter of a ton or two per car, you can see it is a significant factor to the railways.

The CHAIRMAN: Do you have a question, Mr. Byrne?

Mr. BYRNE: I have just one question. Mr. Whittaker, you said that there are two possible obstacles which may prevent the construction of a railway line to connect with the Great Northern. Have you any reason to believe that the Board of Transport Commissioners would become implicated in any way in this?

Mr. WHITTAKER: I believe that some months ago a member of the staff raised that point with me, that the Board of Transport Commissioners might be . . .

Mr. BYRNE: Which staff? Your staff?

Mr. WHITTAKER: No, the Department of Transport, not the Board of Transport Commissioners.

Mr. PICKERSGILL: I am afraid I was not paying adequate attention. I wonder if Mr. Whittaker would mind repeating what he has just said because I would like to make sure I understand it correctly.

Mr. WHITTAKER: I understood Mr. Byrne's question to be, have you any reason to believe that the representatives of the government of Canada would intervene and perhaps refuse a permit for the building of another railway. This railway that has been talked about would be wholly within the province of British Columbia and it might be argued that since it is wholly within the province of British Columbia it might be only a matter of concern for the provincial government.

On the other hand, other people would argue that since the intent of the line is to connect with another line across the border and international trade is involved, then this might be a matter for the government of Canada. Now, this we do not know but both of those points have been raised.

Mr. PICKERSGILL: Of course, if you sought to build a railway under a federal charter, the government would not have any say in the matter. You would make a petition to parliament and parliament would decide whether you could build a railway or not. While the members of the government may express views one way or the other, they would only be doing so as members of parliament. It would be a private bill and it would be for the majority of the members who decided to vote on it, to vote whichever way they chose.

On the other hand, assuming it was going to be tried if you chose to do it on the basis that since it is wholly within the province of British Columbia it would be a provincial charter. I do not know on what grounds the government of Canada would take initiative to oppose it. It might be, of course, that some opposing interest might seek to suggest that the legislation was ultra vires of the province, but it is not very normal. Of course, the Minister of Justice does have the duty every year to look at all provincial statutes to see whether or not they should be disallowed. But in the history of Canada, in the first 100 years, we have not disallowed very many, and I do not recall any railway legislation being disallowed, certainly in my lifetime as I remember it.



My own view would be that one would be very reluctant to interfere with the legislation of the province. If the provincial legislature saw fit to incorporate such a railway we would be inclined, I think, to let events take their course. It might be that there would be difficulty getting it through the legislature; it might be that even if it did get through the legislature and the railway was started to be built, the building of it would be challenged in the courts. That would, of course, be something over which the government would have no control.

But if it is possible to have such a railway, of course, then you could not possibly be a captive shipper because you would then have a competitive route.

MR. BLAIR: Mr. Chairman, I do not think that Mr. Whittaker meant to imply that the government of Canada, as such, would interfere in the operation of this proposed line which I think would have been built under provincial charter, but the ordinary law of Canada as administered now by the Board of Transport Commissioners and later by the new Transportation Commission would apply and there are many cases going back for 100 years as to the interconnection of provincial railway lines and provincial lines with international lines which leave it somewhat doubtful whether or not this kind of line could be built without the approval or authority of the Board of Transport Commissioners which would be requested in the ordinary way.

MR. PICKERSGILL: Mr. Blair is an eminent counsel and I am only a layman and I would not venture to express a legal opinion on an abstruse point of this kind. There is a salutary rule that ministers of the crown should not—if I may put it rather vulgarly—shoot off their faces about the law.

MR. BYRNE: I have only one more question. Mr. Whittaker, you said in reply to Mr. Deachman you are of the opinion that the land transportation of the coal can stand on its own feet. Bearing in mind that the present government subsidy which while it does not go to the railway does go towards the cost of production, do you suggest that by the elimination of the subsidy then the rate on coal to the Pacific coast should be about \$2.55, that is, \$5.28 less \$2.73?

● (4.50 p.m.)

MR. WHITTAKER: With respect, Mr. Byrne, the money provided by subvention does not go to subsidize production. It goes to pay part of the costs of transportation. So far as the rate is concerned, and suppose that we reach the point where subvention is going to disappear, this would probably result from three elements. A lower freight rate resulting from greater volume and greater efficiency in moving the coal. The same thing applies to the cost of production; the larger the production, with attendant economies and increased mechanization, the greater the decrease in cost. We believe that with a larger tonnage we would certainly loom larger in the Japanese market and we could probably drive better bargains there than we can with our small tonnage, as at the present time. So, it would have to be a combination of a number of things. Certainly, we do not think for one minute that the railway company should bear all the burden in arriving at this happy solution.

MR. BYRNE: I was not implying that the \$2.73 went entirely as part of production, but rather that it made the coal marketable in Japan. Having eliminated the \$2.73, we would have to anticipate quite a measurable reduction in the freight rate. Have you estimated this? I believe in your brief you have said what you believe the actual costs plus a reasonable profit would be.



Mr. WHITTAKER: Under the circumstances, Mr. Byrne, I do not think it would be appropriate for me to comment on the exact level at this time.

Mr. BALLARD: Mr. Whittaker, I was interested in your comments on the pipe line down in Ohio in the United States and, if I remember the case correctly, when the railway in that particular area was faced with the competition of a pipe line they redesigned some of their equipment to make it more efficient in the movement of the product involved. The question is have the CPR, in connection with the movement of your coal, redesigned any of their equipment to make it more efficient?

Mr. WHITTAKER: I say this, sir, that at the present time the largest hopper cars that the railways use are about 80 tons, but just within the last year or so they have started to build some very good equipment that will handle 102 tons. Most of these cars have been used so far in the hauling of fertilizer and potash and materials that have to be kept bone dry.

I would think that on a large movement of coal, such as we envisage, it would be most attractive for the railways to build larger cars and I think that would be the tendency. At the present time we are using some old cars that were built in 1925 which only hold 50 to 55 tons—there are only a few of them, it is true—but still I think the railroad take the attitude they have written off the cost of these things and so long as they will run they might as well use them. This is why our average shipments are 142,000 pounds rather than 160,000 pounds. This reflects the number of smaller cars in service.

Mr. HARQUAIL: I could elaborate on that in my own company. In the calendar year 1965 we shipped 450,000 long tons. The average carload was 64 tons. Having in mind that the CPR's biggest cars right now are 80 tons, it meant that the bulk of the cars that are now in coal service are cars built 25 years ago or longer, so we are getting the tiny cars.

Mr. BALLARD: Would those cars which you are referring to now, the smaller type car, would they be used for backhaul?

Mr. HARQUAIL: They are being used for backhaul. It is not an efficient operation to the railway to move those very small cars. They are very old but they are being used.

Mr. BALLARD: Mr. Whittaker, you also discounted the possibility that the Canadian government was subsidizing Japanese industry through subvention. I was wondering if there are any comparable cases of American coal going to Japan, comparable from the standpoint of location in the mountains, that is, being shipped to the seaboard and transshipped to Japan? Are there any instances of this? Does the American government pay a subvention to those companies?

Mr. WHITTAKER: Practically all of the American coal that goes to Japan is mined in West Virginia and Virginia, and about the longest haul they have is around 400 miles, or slightly further. They have very favourable grades and they haul some very large trains, as many as 200 cars to the train.

There are no subventions. I will tell you about one thing the American railways do. The loading docks at Hampton Roads and Newport News are owned by the railways. The charge for loading coal at Hampton Roads is 4½ cents a ton. We pay 80 cents a ton at Port Moody. This is because it certainly

costs the railway more than  $4\frac{1}{2}$  cents to load that coal. As a matter of fact, they not only load it but they switch it and blend it for that price, but they do that at the expense of the rail rate, you see. It is a combined rate. Their rates are something in the order of just over \$4 a ton. They ran until recently from \$4.11 per ton to \$4.38 per ton but with the  $4\frac{1}{2}$  cents loading charge the over-all charge was about \$2 a ton less than ours. So, it is true that the Americans do not subsidize the coal.

On the other hand, one of our largest competitors in Australia, the coal most similar to our own, is located—there are about four mines involved—anywhere from 8 to 38 miles from tidewater. They all look out on the sea. That coal is subsidized. True, not as much as ours, but they do have subventions for export coal.

Mr. BALLARD: If you take the subvention off the rates that you pay, your net payout for freight is really less than the American companies.

Mr. WHITTAKER: This is true.

Mr. BALLARD: I suppose they have a longer water haulage than you have.

Mr. WHITTAKER: Yes, they have at least 3,000 miles longer than we have and on top of that, of course, they have to go through the Panama canal.

Mr. BALLARD: And they still can compete favourably with you, is that right?

Mr. WHITTAKER: Well, they have several things going for them. First of all, the American bituminous coke and coal is the best in the world. It has a lower inherent ash than ours. It commands several dollars a ton more than our coal on the market. So, when you add it all up, the Japanese pay us what they think our coal is worth to them. We do not entirely agree with them, we always think we should get more. We still have to meet the competition of at least four other suppliers, all of whom are bigger than we are.

Mr. BALLARD: Just as a point of interest, at the bottom of page six you say: "In the United States in 1961 the average excess of revenue over variable cost was 27 per cent." For coal it was 7 per cent. On page 8 you give some further statistics. On line 3 you say: "At \$5.28 the rate is 84 per cent above the current cost and 107 per cent above the cost made possible by ground storage at the port." What is the American experience on this second part. Do you have comparable figures for the American situation?

● (5.00 p.m.)

Mr. WHITTAKER: Mr. Dutton can answer that better than I can. I will just say that at the American ports there is no ground storage and, in addition to hauling the coal at the rates that I suggest, the railroads store the coal in the cars rather than on the ground, and they may have anywhere up to 20 or 30 tons. At Hampton Roads alone they may have 9, 10 or 12,000 tons of coal in that many cars in their yards at one time which must be switched, blended, and so on. This is all part of that freight rate.

The CHAIRMAN: Mr. Ballard understands that, I think. The comparisons are not equal here and I think perhaps we are going far afield again as far as comparisons of costs are concerned. It seems clear from Mr. Whittaker's

statement that no such comparison can really be made. Would you keep your questioning within the context of the brief or the bill.

Mr. BALLARD: I think the question is fair enough, Mr. Chairman. We will just ask about the first part of it. You say at \$5.28 the rate is 84 per cent above the current cost." Have you got something comparable to that from the American experience?

Mr. DUTTON: What we showed on page 6 was the average figure. This is taken from a study that the Interstate Commerce Commission publishes from time to time. They take a 1 per cent sample of the ratio of the carload traffic in the United States and make an analyses of what commodities move and where they go and, using a method of cost computation which the commission has developed, they compute—they, of course, collect the revenue from the waybills—the cost from the statistics which are available from the waybills as to weight and distance and where the traffic moves. The 7 per cent figure there is simply the measure by which the total revenue for the coal traffic in the sample exceeds the variable cost that is computed for the coal traffic in the sample. So, it is an over-all average for coal movement in the United States and it reflects movements such as Mr. Whittaker was mentioning, movements from the mines to tidewater for export and it also reflects the movements of coal for domestic consumption. Is that responsive to your question, sir?

Mr. BALLARD: No, is it not. Perhaps I could phrase it a little differently. You say on page 8, "At \$5.28 the rate is 84 per cent above the current cost." What do you mean by that?

Mr. DUTTON: Our organization, R. L. Banks and Associates, made a cost study for the Coal Operators Association of Western Canada in which we estimated as closely as we could the variable cost of the transportation of coal from the three member mines to Port Moody for export. In the case of Coleman, which is one of the mines, our calculation worked out the variable cost at \$2.80 per ton, which is the figure on the first line on page 8. Now, the \$5.28 a ton rate is arithmetically 84 per cent greater than this \$2.86 a ton variable cost which we had calculated.

Mr. JAMIESON: May I ask a supplementary question? Did you base this variable cost on American experience or were you able to get some Canadian figures?

Mr. DUTTON: It was not based on American experience, sir. From material that went into the record on the studies of the cost of moving grain, we got a great deal of information about the relationship between the various expense accounts of the railroads and operating factors. The way in which maintenance expense, for instance, varies with train miles and ton miles, and in some cases we followed these. We used factors for updating them in terms of the change in the wholesale price index and the change in wage levels. In other cases the relationships between expenses and operating factors could be tested from the average expenses of the railroads as reported for the more recent year. So, we gathered together a group of unit costs per ton mile or per engine hour or per train mile, and so on, partly from the studies which had been made earlier and which had gone into the record in the MacPherson Commission report and partly from the publicly reported figures of the railways. Then, to get the service



units, train miles, ton miles, engine hours, and so forth, which would apply to the movement of coal, we got information through the member mines. They provided us with records of how many tons they shipped, how many cars were shipped, they kept track of the car numbers so they had a record of the turn-around time of the cars against the number of car days involved, and the car miles, of course, follow out automatically from the mileage moved, so we were able to gather together figures which related to the specific movements and were pretty closely tied to the actual experience of the Canadian railways. Now, this is not perfect. We have had to depend on data that goes back several years and we have had to make estimates, but if more complete data had been made available to us we could have done things a little closer. However, we are confident that this is a reasonably accurate measure of the variable cost and it is related very definitely to the movement of this traffic on the Canadian Pacific Railway. It is not just a transposition of some American data.

Mr. DEACHMAN: I have a couple of questions which I think will clarify the questions and answers between the minister and Mr. Whittaker.

Do I understand that the building of that 75 mile line which was referred to would be built from a spur of the Great Northern, which already exists in British Columbia, to the mine in the area of Michel in British Columbia? Is this where it would be located?

Mr. WHITTAKER: The line would be between Michel and a point just north of the border at Rexford.

Mr. DEACHMAN: Where the Great Northern already has a spur?

Mr. WHITTAKER: They are 14 miles below the border.

Mr. DEACHMAN: Yes, and then coal would be carried over the Great Northern toward the coast. Would it be carried back to the Canadian side again?

Mr. WHITTAKER: This would add considerably to the mileage and probably would make the route uneconomic.

Mr. DEACHMAN: Has the possibility of moving it back on the Great Northern to the Canadian side again been considered?

Mr. WHITTAKER: It has been looked into yes.

Mr. DEACHMAN: With a view to connecting it up with the present deepwater harbour at Sturgeon Bank?

Mr. WHITTAKER: That has been looked into, sir.

Mr. DEACHMAN: Could this be done on a negotiated rate without reference to the existing rate structure?

Mr. WHITTAKER: I am not sure I understand your question.

Mr. DEACHMAN: Could this be done on a much improved rate structure than the rate structure with which you are now faced?

● (5.10 p.m.)

Mr. WHITTAKER: Certainly no railway would be built, or contemplated, unless it was thought it would be a better proposition than the one that now exists.



Mr. DEACHMAN: Once coal began to move in major quantities over such a line and to a deepwater harbour in the lower mainland, then other rates would have to come down. Would that be your view? That the CP rate, if it were going to remain competitive and if the coal dock at Port Moody were going to remain in business, it would have to compete?

Mr. WHITTAKER: I do not think it is possible, sir, to bring the coal down into the United States and then take it north again from Everett up into British Columbia. I think that additional haulage would make the proposition much less attractive.

Mr. DEACHMAN: Even with a deep seaport built at Sturgeon Bank?

Mr. WHITTAKER: Yes, for the simple reason that there would be just that much additional haulage which would cost that much more money.

Mr. DEACHMAN: Even the advantages of bulk carriers at a deepwater port, such as has been suggested at Sturgeon Bank, would be offset by the disadvantage of the additional rail haul between Everett and Vancouver?

Mr. WHITTAKER: Of course, any bulk carriers that could come into Sturgeon Bank could certainly come into Everett, where the water is much deeper than the location of the proposed dock at Fort Roberts or Sturgeon Bank, so those advantages would just wash out.

The CHAIRMAN: Mr. Whittaker, you are destroying a pet project of Mr. Deachman's.

Mr. DEACHMAN: No, I am very curious about this project because it has been spoken of in British Columbia many times and it is one of a number of possibilities, Mr. Chairman, that are being explored to see whether or not western Canada can obtain this coal business. I think the presentation which Mr. Whittaker and his associates made today is a very interesting proposition for the west.

Mr. PRITTIE: I have just one question on the possibility of a line through the United States. What has the attitude of the British Columbia government been on this matter?

Mr. WHITTAKER: I have not talked to the British Columbia government.

Mr. PRITTIE: The Attorney General has met with your association and the CPR at different times?

Mr. WHITTAKER: He has not met with our association, sir, he has met with one company and that was a private meeting. I was not present.

The CHAIRMAN: If there are no further questions, I wish to thank Mr. Whittaker, Mr. Harquail, Mr. Dutton and Mr. Blair very much for the presentation of their brief.

Before we adjourn, I want to bring to the attention of the committee two letters that we have received. Actually, they are briefs in the form of letters. One is from the Faculty of Applied Science and Engineering, University of Toronto, from M. E. Charles, associate professor of chemical engineering, and R. M. Sobernon, associate professor of civil engineering. We also have a letter from E. J. Wiggins, director, Research Council of Alberta. Could I have a motion to have both these, and today's brief, printed as an appendix to our Minutes of Proceedings and Evidence?

Mr. JAMIESON: I so move.

Mr. SOUTHAM: I second the motion.

Motion agreed to.

The CHAIRMAN: We will adjourn, Mrs. Rideout, and gentlemen, until tomorrow morning at 9.30 a.m., at which time we will hear the Canadian Industrial Traffic League. At 3.30 in the afternoon, or after Orders of the Day, we will hear Wabush Mines. This was not on your agenda, but it was confirmed today that at 8 o'clock tomorrow evening we will hear the Government of Saskatchewan. Mr. Blair will be here again at that time. Then we will meet on Wednesday at 3.30 to hear Mr. Molgat, leader of the Liberal party in Manitoba, Thursday at 9.30 a.m. the Canada Steamship Lines and the Windsor Chamber of Commerce. At 3.30 in the afternoon the Canadian Trucking Association, which may require our sitting in the evening as well. Friday from 9.30 until 11 we will hear the Manitoba branch lines. We have added these because the committee will not be sitting, of course, on Armistice Day, November 11, nor will it be sitting on November 14, 15 and 16, when the Conservative party has its conference. Before those dates there are a couple of more briefs we will be hearing. After that we will commence the clause by clause study, we hope, on the 17th of November. We will adjourn until 9.30 tomorrow morning in the Railway Committee room in the Centre Block.

## APPENDIX A-18A

Gentlemen:

The Coal Operators' Association of Western Canada is comprised of three companies as follows:

The Canmore Mines Limited, Canmore, Alberta

Coleman Collieries Limited, Coleman, Alberta

The Crow's Nest Pass Coal Co. Ltd., Fernie, B.C.

This Association, in March, 1965, presented a submission to the Standing Committee of the House of Commons on Railways, Canals and Telegraph Lines on Bill C-120. The present submission is for the purpose of supplementing and bringing to date the previous one and has been prepared in cooperation with R. L. Banks & Associates Inc., Transportation Consultants, Washington, D.C., who represented the Provinces of Manitoba and Alberta in the analysis of the Crow's Nest Pass grain costs before the MacPherson Royal Commission. A representative of this firm will be available to answer questions and to elaborate on the submission.

Member companies of the Association in the year 1964 produced approximately 1,600,000 tons of medium and low volatile coking and non-coking coals. All three of these mines are located on Canadian Pacific Railway lines and the total production is shipped by rail, there being no markets close enough to make truck shipments. As a result, the total production is captive to Canadian Pacific as defined by Section 336(1).

Sixty percent or more of the tonnage is exported to steel mills and to chemical and gas companies in Japan via Port Moody, B.C., with federal government assistance in the form of subventions. The balance of the tonnage is used almost exclusively in metallurgical operations in Western Canada and the Western United States.

At the present time these companies are negotiating with the Japanese steel producers for long-term, large-scale contracts which contemplate shipments of 3,000,000 tons or more per annum for a ten year or greater period by 1970.

Through these large tonnages and their attendant increased efficiencies and productivity and the lower transportation costs resulting from the use of unit trains and larger vessels, it is the objective of the producers to eliminate entirely the present freight subvention of \$2.75 per ton.

For the purpose of this submission we will confine our observations to Section 336 which deals with the matter of maximum rate control.

We believe that the purpose of this section providing for maximum rate control is good but feel that its provisions are so hedged around by restrictions as to make it virtually worthless so far as low value bulk commodities are concerned. In this regard we wish to register the following objections:

1. *Determination of Variable Costs, Section 336(3)*

This subsection reads in part, as follows:

"In determining the variable cost of the carriage of goods for the purposes of this section the Board shall:—



- (c) Calculate the cost of carriage of the goods concerned on the basis of carloads of 30,000 lbs. in the standard railway equipment for such goods.”

The production of our member companies moves almost wholly in hopper cars which have capacities up to 160,000 lbs. The average hopper car loaded with export coal carries in excess of 140,000 lbs. This average weight reflects the number of smaller and older type cars supplied by the railway company. The mines also ship a small proportion of their domestic production in box cars at the consignees' request. The minimum net weight of coal carried by these cars is 90,000 lbs.

It is apparent, therefore, that the calculation of variable costs using the 30,000 lbs. stipulated in subsection (3) (c) would be a most unrealistic procedure even allowing for the adjustments provided under subsection (5) (b) (ii) and (iii) and further that costs calculated on this basis would be grossly inflated in the case of coal shipments and would bear no reasonable relation to actual cost.

We suggest, therefore, that if there is to be any real or factual measurement of the variable cost of low value bulk commodities, subsection 3 must be amended to provide that the actual shipping weights be used for such calculation.

Aside from proposing the artificial 30,000 lbs. per carload instead of the actual shipping weight which is necessary to any meaningful determination of variable cost, the bill very properly provides that all relevant cost elements be taken into consideration, including depreciation and the cost of capital. In its use of the words “relevant” and “variable” and in the provision that the lowest cost route be the basis of computation, the bill gives recognition to the fact that the economically significant factor is the variable cost of the specific movement, not some generalized system average cost nor the variable cost of some hypothetical, typical traffic, however important such information may be in assessing generally the effects of the proposed formula. The provision about non-disclosure in Section 387C, nevertheless, raises a question as to whether the development of meaningful cost estimates will be possible. The non-disclosure assurance is understandable. Compared to many businesses, railroads live in a goldfish bowl; yet even they have, and deserve, some degree of administrative privacy.

On the other hand, the need for detailed information is real. An Interstate Commerce Commission examiner expressed it well recently:

“Specific cost data relating to the particular traffic and operations of the individual carriers involved should be developed, in preference to, and as being more reliable and possessing greater probative value than, general average costs covering the overall systemwide operations of a carrier, a group of carriers, or all the carriers in a territory.”<sup>1</sup>

The experience in determining the cost of transporting coal to Port Moody for export, which is set forth later in this submission, is very much in point and illustrates the difficulty of shippers in determining the effect of the proposed

<sup>1</sup> Interstate Commerce Commission, No. 34013, *Rules to Govern the Assembling and Presenting of Cost Evidence*, report and order recommended by Jair S. Kaplan, Hearing Examiner, October 10, 1966, p. 1, paragraph 2 of findings.



formula. The variability of the elements of cost and their relationships to physical factors such as ton-miles and train-miles were brought up to date from detailed information developed in the course of the investigation of grain transportation costs. This information could not have been derived solely on the basis of the facts regularly reported by the railways. Again, the physical factors which occasion the cost of transportation were not simply reported system averages. As far as was practicable, actual values for tonnage ratings, car turnaround times and other factors were used.

Balancing the need for explicit knowledge against the need for privacy will require tact and careful use of the powers conferred on the National Transportation Commission. A possible solution would be to require the railways to make extensive disclosure to the Commission for its cost studies, with the requirement that such information not be divulged to shippers or other outside parties.

This we presume, would be the procedure followed by the Commission in the first step contemplated by Section 336(1), namely, fixing a probable range within which the rate would fall. This, of course, forecloses the possibility of cross-examination or any other method of testing the probable range of rates by the shippers. It is presumed that, if the shipper is compelled to apply under Section 336(2) for the fixing of a rate, there would be full disclosure of railway costs and an opportunity for the shipper to cross-examine and comment thereon.

Another factor significantly affecting variable costs, consideration of which is not mentioned in the bill, although it may be implied, is transporation in multiple car cuts or even in unit trains. It is the basis of great advances in efficiency and economy in the United States, Britain and elsewhere as well as in Canada.

## 2. *Finding the Rate Applicable to the Carriage of the Goods, Section 336(2)*

This subsection provides, in part:

"... the Board may after such investigation as it deems necessary fix a rate equal to the variable cost of the carriage of the goods plus one hundred and fifty percent of the variable cost, as the fixed rate applicable to the carriage of the goods..."

The 30,000 lb. weight and the 150 percent markup over variable cost indicate that the maximum rate limitation has been contemplated in terms of light loading, high value commodities which traditionally move at rates having a wide margin above variable cost; although even for such movements 150 percent seems high. For low value, heavy loading, bulk commodities, any such markup is unbearable and unprecedented. In the United States in 1961, the average excess of revenue over variable cost was 27 percent. Of course, for many commodities the excess was much greater, in a few cases even exceeding 150 percent. For coal it was 7 percent. Yet coal is one of the principal contributors to bearing the constant cost burden.<sup>2</sup> It has been to the railways' own interest to keep coal rates low. Where there has not been competition from other forms of transportation, there has been the competition of other sources of

<sup>2</sup>Interstate Commerce Commission, Statement 6-64, *Distribution of the Rail Revenue Contribution by Commodity Groups-1961*, June 1964.

coal and other kinds of energy. And the traffic has been worth competing for. The margin per ton is small but the tonnage is large; coal railways have a history of good earnings.

Unfortunately, it seems that competition from other sources of coal cannot be relied upon in every case. Uncertainty as to costs and uncertainty as to market competition may lead a railroad to believe that a rate reduction is not necessary to retain traffic and would not contribute to increased revenue but would reduce net or result in actual loss. In such a case, individual analysis is necessary. No predetermined markup will fit.

Coal is a low value bulky commodity. Our average realization on export coal at mines is about \$6.40 per ton.

The cost study made by R. L. Banks & Associates, Inc. showed that the revenue received by the railway covered not only all the variable costs of the railway movement, but also made a substantial contribution to the railway's overhead costs.

This study of the cost of transporting coal to Port Moody for export indicates, for example, that for the year ending March 31, 1965, the variable cost for movement from Coleman was \$2.86 per ton. When ground storage at Port Moody is put into operation, with resulting economy in car handling, the cost is expected to fall to \$2.55 per ton. At \$5.28, the rate is 84 per cent above the current cost and 107 per cent above the cost made possible by ground storage at the port. No conceivable allowance for imperfect knowledge of operating details or for changes in cost variability since the grain studies can obscure the fact that these are entirely untypical markups for coal freight rates. At such a high rate, the export of coal to Japan has been possible only with a federal subvention of \$2.75 per ton. The mines are preparing for increased output and more efficient production but if they are to continue and expand their sales to Japan, their production, and their traffic on the Canadian Pacific, without further subvention, they must have realistic freight rates.

If 150 per cent had been added as required by subsection (2), the rate would then have become \$7.15 per ton as compared with the existing rate of \$5.28. At a \$7.15 rate no coal would move and such an increase would simply close down the mines. As a matter of fact even at the \$5.28 rate it is only with the utmost difficulty that the mines are able to maintain their competitive position.

It is to be noted that the above quoted costs are based on actual car weights of 142,000 lbs. It can be readily appreciated what these costs would be if the fictitious 30,000 lb. figure had been used plus the pyramiding effect of adding 150 per cent to an already much inflated figure.

The calculation of a rate, applicable to coal on the basis proposed by Section 336(4) tied to the 30,000 lb. formula, would be extremely burdensome. It can, however, be said that the rate would approach if not exceed twice the rate of \$7.15 per ton which results from the application of 150 per cent to the actual cost of moving coal in 142,000 lb. lots. While it may be contended that rates on coal would never reach this high ceiling, its very existence will tend to encourage an increase above already inflated levels.

We submit, therefore, that Section 336 must be amended in the light of its effect on low value high volume commodities.

### *3. Existing Level of Rates Prevails for Fixed Periods, Section 336(11) and (15)*

These subsections provide that no remedy can be sought through Section 336 with respect to an existing rate for a period of at least three years unless and until the carrier advances such rate, even though because of changed conditions the rate may have become manifestly unjust and unreasonable.

As an example, the commercial or domestic carload lot rate on coal from Coleman, Alberta, to Vancouver is \$5.55 per ton. This rate applies whether one car or one hundred cars are shipped at one time and whether they are shipped to one consignee or to fifty. In contrast, the export rate from Coleman to Port Moody, which is located 13 miles east of Vancouver is \$5.28 per ton. More than 500,000 tons of coal will move in the 1966 coal year from this one origin to the one destination; a good deal of it in trainload lots. The same situation applies in the cases of Michel and Canmore where 400,000 tons and 170,000 tons of export coal respectively will be shipped during the same period.

It is submitted that this export rate does not recognize the savings inherent in the movement of large volumes of coal, often in trainload lots, from one origin to one destination. Under the terms of subsection (11), as written, the captive shipper has no recourse to maximum rate control unless a rate already more than adequate is further increased.

Over the past two years the Coal Operators have been making representations to Canadian Pacific regarding rates for the shipment of export coal by integral and unit trains between the mines and Port Moody, as and when ground storage becomes available at the latter point.

We are unable to predict the outcome of these negotiations. We may or may not arrive at satisfactory rates. If we are unable to do so and if Section 336 is enacted without amendment, we will have no recourse to the Commission, for at least three years, unless and until the present rate is increased and as captive shippers we would then be compelled to attempt to live with whatever rates the carrier might decide to impose.

The combined effect of Section 336(11) and (15) is virtually to prevent invoking maximum rate regulation for the foreseeable future.

Even if the barrier set up by Section 336(11) were removed, recourse to the Commission would be of no value to us so long as variable costs are calculated on the 30,000 lb. basis and 150% is added to variable costs to fix a maximum rate.

### *4. Period for Review Too Long, Section 336(16)*

This subsection provides that, after the proposed formula has been in operation for five years, the Commission shall examine its operation and effects. Such an examination, involving as it will, extensive public hearings and the mature consideration of the Commission will take considerable time. If, as is to be expected, the Commission recommends changes in the formula to the Governor in Council, in accordance with the section, further delay will occur before these changes can be placed before Parliament and enacted as an amendment to the statute. It appears not unreasonable to suggest that a period much in excess of five years, perhaps seven to ten years, could elapse before any effective relief could be obtained from a formula which is demonstrated to be



unfair for the shippers and the public. It is, therefore, submitted that the period of review should be shortened to a period not exceeding three years. The Commission should be authorized, within the three year period, to institute such a review on its own motion, in its opinion, the operation of the formula is such as to require earlier review.

### 5. *Summary*

In summary, we recommend that:

(1) Section 336(3) should be amended to provide that the actual elements of cost involved in specific movements, including the actual weights of shipments, be used in calculating variable costs.

(2) In the case of low value, heavy loading, bulk commodities, such as coal, the maximum reasonable rate should be determined by study of the specific situation and not by the application of any predetermined percentage markup.

(3) Section 336(11) and (15) should be amended so that the captive shipper may at any time apply to the Board to fix a rate.

(4) Section 336(16) should be amended to provide that the cost formula must be reviewed within a period not exceeding three years, with power in the Commission to commence such a review earlier if circumstances indicate it is desirable in the public interest.

Respectfully submitted,  
on behalf of

THE COAL OPERATORS' ASSOCIATION  
OF WESTERN CANADA



## APPENDIX A-19

*Submission to the House of Commons Transport Committee*

by

The Research Council of Alberta

*1. Purpose*

The purpose of the present brief is to draw attention to the need for comprehensive physical research and development in transportation, peculiar to Canadian needs and to suggest revisions to Bill C-231 accordingly.

*2. Scope*

The scope of the brief pertains to:

- (a) bulk transportation, in general, and in particular to
- (b) transportation in those areas of Canada lying outside the Windsor-Toronto-Montreal-Quebec corridor.

*3. Nature of the required research and development*

Comprehensive research and development is required to promote new ideas in physical transport. The emphasis must be on physical innovation, which will meet the particular transport challenges in the several areas involved. These areas range from mountainous regions through prairies to the maritimes, and include the arctic and subarctic districts of Canada. The basic approach must be to assess the fundamental transport needs and create specific solutions without undue bias towards conventional transport methods.

*4. Initial approaches*

Little effort is required to define the problems in conventional terms. The needs are so great that the problems are obvious. Twenty case-study examples will suffice to lay the research and development opportunities open for creative innovation. Such case studies will provide sufficient scope for treating a wide variety of conditions for the several parameters involved: traffic volume, distance, topography, climate, terrain, handling characteristics, energy supplies and personnel. A fundamental guiding principle will be the most effective use of capital investment.

*5. Intermediate developments*

The methods applied in the initial approaches will point the way to a wide variety of technically possible transport innovations. The next step will be to explore the possibilities of many of these through physical research, first in laboratory investigations, and later, if warranted, in limited field tests. The innovations which emerge successfully from such research will then be submitted to systematic development work. In the course of such work, particular emphasis will be directed toward the most promising systems as indicated by engineering and economic projections.

*6. Useful results*

Out of the initial approaches and intermediate developments will emerge a few very promising bulk transport systems. They may bear a casual resem-

blance to conventional systems, they may appear to be hybridizations of conventional systems, or they may be radically different. They will be manifestly better than simple adaptations of existing systems of bulk transportation. The capital-use factor and the degree of automation will be high.

#### *7. Research and development organization*

The project approach offers many advantages over the institutional approach. For best results the work should be allocated to existing research and development bodies located in the areas in which the transport needs are clearly indicated. Close, informed liaison between associated groups must be established while retaining some degree of competition. Research and development managers operating with the guidance of advisory committees seem to represent the most desirable management pattern. Established research bodies appear to be the most likely locales for the work; consulting firms are usually not oriented towards long range development work; universities are well fitted for creative work, but have, due to their teaching load, some difficulties in mounting sustained and intensive research and development programs.

#### *8. Research and development finances*

A base of approximately \$10 million appears to be an appropriate expenditure on transportation research and development in the areas mentioned above. In the early part of the program a major part of this sum would be devoted to research; in the later stages, the development expenditures will dominate by a factor of about ten to one. Solutions obtained to transportation problems through research and development should ultimately reduce the need for subsidies in many areas. The present transportation subsidies amount to more than ten times the suggested research and development costs.

#### *9. Revision of Bill C-231*

It is suggested that the ideas developed in this submission may be incorporated in Bill C-231 by changing paragraph 16 (1) (b) which presently reads

“(the Commission shall)”

“undertake studies and research into the economic aspects of all modes of transport in Canada;”

to read as follows:

“undertake, encourage, coordinate and support creative physical research projects and economic research studies into present and future modes of transport in Canada;”

#### *Summary*

A revision of paragraph 16 (1) (b) in Bill C-231 is proposed in order to incorporate a research and development program for dealing with the transport needs for bulk commodities in the raw material producing areas of Canada. It is suggested that \$10 million be allocated for such research and development, and that the work be carried out on a project basis by competent institutions located in those areas of Canada where the cost of transportation presently constitutes a barrier to rapid exploitation of natural resources.

Edmonton, Alberta.

October 25, 1966.

## APPENDIX A-20

FACULTY OF APPLIED SCIENCE AND ENGINEERING  
UNIVERSITY OF TORONTO · TORONTO 5,  
CANADA

OCTOBER 12, 1966.

Mr. J. Macaluso, Chairman,  
Standing Committee on Transport and Communications,  
House of Commons,  
OTTAWA, Ontario.

*Brief regarding the place of research in the  
National Transportation Act.*

Dear Sir:

We, the undersigned, are aware of the great importance of the National Transportation Act in providing for a unified approach to the matter of transportation in Canada.

At the same time, however, we are deeply conscious of the role that research has had in the development of industrialized nations, a role that is just as applicable to transportation as it is to any other industry.

We are disappointed, therefore, to find that the powers of the Commission with respect to research are limited to undertaking "... studies and research into the economic aspects of all modes of transport in Canada" (16.(I)(b)).

Bearing in mind the importance of new and improved transportation methods to Canada, we ask that the above clause be amended to include not only financial support for research into the economics of transportation, but also financial support for research into technological innovation, transportation systems analysis and design, and possible new methods of transportation such as the long distance transport of commodities by pipeline.

In other words, we feel that the active support of creative physical and operational research by the Commission on a reasonably large scale would lead ultimately to Canada holding a leading position in the field of science and technology of transportation, especially as it applies under the climatic and terrain conditions of this vast country.

Yours sincerely,

M. E. Charles,  
Associate Professor  
of Chemical Engineering

R. M. Soberman,  
Associate Professor  
of Civil Engineering.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966

STANDING COMMITTEE

ON

# TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 32

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TUESDAY, NOVEMBER 1, 1966

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Respecting  
BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

---

WITNESSES:

*From The Canadian Industrial Traffic League:* Mr. R. E. Gracey, General Manager; Mr. V. G. Stroud, President; Mr. George Paul, Consultant.  
*Representing Wabush Mines:* Messrs. V. W. Scully, Chairman of Steel Co. of Canada Ltd.; J. F. Howard, Q.C., Counsel, Wabush Mines; F. H. Sherman, President of Dominion Foundries and Steel Co.; J. S. Abdnor, Assistant to President, Pickands, Mather and Co.; A. V. Harris, Chartered Accountant, Riddell, Stead, Graham and Hutchison. Mr. Gordon Blair, *Counsel for the Government of Saskatchewan.*

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966



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ON  
TRANSPORT AND COMMUNICATIONS

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<i>Yamaska</i> ),	Mr. MacEwan,	Mr. Southam,
Mr. Deachman,	Mr. Mather,	Mr. Stafford—(25).
<sup>1</sup> Mr. Groos,	Mr. McWilliam,	
Mr. Horner ( <i>Acadia</i> ),	Mr. Nowlan,	

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Byrne on November 1, 1966.

ORDER OF REFERENCE

TUESDAY, November 1, 1966.

*Ordered*,—That the name of Mr. Groos be substituted for that of Mr. Byrne on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

TUESDAY, November 1, 1966.

(53)

The Standing Committee on Transport and Communications met this day at 9.40 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Byrne, Cantelon, Côté (*Nicolet-Yamaska*), Deachman, Jamieson, Langlois (*Chicoutimi*), Macaluso, MacEwan, Mather, McWilliam, Pascoe, Reid, Southam, Stafford (16).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport and Mr. Addison, M.P.

*In attendance: From the Canadian Industrial Traffic League:* Mr. R. E. Gracey, General Manager; Mr. V. G. Stroud, President; Mr. George Paul, consultant.

The Chairman introduced Mr. Gracey and invited him to introduce the other witnesses and to summarize his brief.

Mr. Gracey gave a short review of the membership of the Canadian Industrial Traffic League and summarized the CITL brief.

On motion of Mr. Mather, seconded by Mr. Pascoe,

*Resolved,*—That the brief submitted on behalf of the CITL be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-21).

The witnesses were examined.

And the examination of the witnesses being concluded;

It was moved by Mr. Deachman, seconded by Mr. Reid that the Standing Committee on Transport and Communications recommend that the quorum be reduced from 13 to 9 during its consideration of Bill C-231.

Mr. Cantelon, seconded by Mr. Jamieson, moved in amendment thereto that all the words after "reduced" be deleted and the following substituted: "from 13 to 11 during its consideration of Bill C-231."

After debate, the question being put on the proposed amendment, it was negatived on the following division: Yeas 6, Nays 7;

And the question being put on the main motion, it was carried on division: Yeas 9, Nays 4.

At 11.10 o'clock p.m., the meeting adjourned until 3.30 o'clock p.m. this date.

## AFTERNOON SITTING

(54)

The Standing Committee on Transport and Communications met this day at 3.40 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Allmand, Cantelon, Côté (*Nicolet-Yamaska*), Deachman, Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, Mather, McWilliam, Pascoe, Reid, Southam, Stafford (14).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Messrs. Blouin, M.P. and Morison, M.P.

*In attendance: Representing Wabush Mines:* Messrs. V. W. Scully, Chairman of Steel Co. of Canada Ltd.; J. F. Howard, Q.C., Counsel, Wabush Mines; F. H. Sherman, President of Dominion Foundries and Steel Co.; J. S. Abdnor, Assistant to President, Pickands, Mather and Co.; A. V. Harris, Chartered Accountant, Riddell, Stead, Graham and Hutchison.

The Chairman introduced the witnesses and invited Mr. Scully to read his brief.

On motion of Mr. Langlois (*Chicoutimi*), seconded by Mr. Mather,

*Resolved*,—That Appendix A to the Wabush brief be taken as having been read into the record.

The witnesses were examined.

And the examination of the witnesses being concluded, the Committee adjourned at 4.40 o'clock p.m. until 8.00 o'clock p.m. this date.

## EVENING SITTING

(55)

The Standing Committee met this day at 8.07 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mr. Allmand, Andras, Cantelon, Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, McWilliam, Pascoe, Prittie, Reid, Southam, Stafford (13).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Mr. McLelland, M.P.

*In attendance:* Mr. Gordon Blair, Counsel for the Government of Saskatchewan.

On motion of Mr. Cantelon, seconded by Mr. Southam,

*Resolved*,—That the brief of the Saskatchewan Government be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-22).

The Chairman introduced the witness, Mr. Blair, and invited him to give a summary of the brief.

The witness was questioned.

There being no further question, the Chairman thanked the witness.

The meeting adjourned at 9.07 o'clock p.m. until 3.30 o'clock p.m., November 2, 1966.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, November 1, 1966.

The CHAIRMAN: Gentlemen we have a quorum. We have with us this morning representatives from the Canadian Industrial Traffic League. I will ask Mr. R. E. Gracey, the General Manager of the League, to introduce the other representatives and to give us a verbal summary of their brief.

Mr. R. E. GRACEY (*General Manager, Canadian Industrial Traffic League*): I thought that the Committee might like to know that Mr. Stroud is the president of our organization. He is presently employed with a large Canadian industrial concern and has had 40 years' experience in industrial traffic management.

Mr. Paul, who has recently retired as transportation manager for another large food concern, had 46 years' experience in this particular field of transportation, and for the last two years has acted as a consultant to industry and to associations.

I worked for 9 or 10 years with a large food concern, and for the past 11 years, I have been general manager of the Canadian Industrial Traffic League.

The league is made up of approximately 1,200 shippers from coast to coast. There are no carriers in our membership, and these traffic management personnel act for industrial and commercial concerns.

We made a submission to the Royal Commission on Transportation, and we appeared before the Standing Committee on Railways, Canals and Telegraph Lines on Tuesday, March 30, 1965, in connection with Bill No. C-120. We are pleased to note that a number of the points that we brought forward at that time have been incorporated in Bill No. C-231. I am sure your Committee will be pleased to hear of this, Mr. Chairman, because our present brief has been reduced by that amount. We have, therefore, restricted our brief to a relatively few points, and we thought we would rather accent these points than to take up your time with items which are not of major concern to us.

Is it your wish that I paraphrase the report, or read it.

The CHAIRMAN: I think you could paraphrase it, Mr. Gracey. The members have had the brief for a few weeks.

Mr. GRACEY: On page 1, we describe the organization, and we also state that individual members of the league, who are the corporate bodies, have the right to make their own representations in case they differ with this representation.

On page 2, we deal with the fact that this act, we believe, is for hire carriers only and not for private carriers, and we wish to say a few words to accent the fact that Bill No. C-231 will affect for-hire carriers only.

On page 3, we discuss the possibility of unjust discrimination and the necessity of having an effective appeal board. We sent you a supplement to the

brief, which is inserted immediately following page 3, and this supplement requests clarification of the appeal procedure and a definition of the words "public interest".

On page 4, we discuss the rights that for hire trucks have relating to rail transportation, with particular emphasis on trailers and container movements, and we state that private trucks should have the same right.

Also on page 4, we notice that the bill proposes to have rate increases effective on 10 days' notice. We would like to tell you that commercial and industrial concerns usually give 30 days' notice to their customers, and we feel that this same 30 days should continue for the railways and the carriers.

Pages 5 and 6 deal with captive traffic, to which I understand you are giving a fair amount of attention. Our position is that this should be left with the commission rather than becoming built into the act and becoming a part of the statutes of Canada. We feel there would be too much rigidity if this captive traffic description were left in the act. We feel that the new transport commission will have the staff and the experts and that they will be able to interpret it, and we would be happy to leave this with them.

Mr. Chairman, those are the key points of our submission.

The CHAIRMAN: Thank you, Mr. Gracey.

Mr. GRACEY: If I cannot answer your questions, we would be pleased to have questions directed at any of the three of us.

Mr. J. W. PICKERSGILL (*Minister of Transport*): I would like to apologize to the Committee and to the witnesses. An unforeseen situation has arisen because of the Prime Minister's indisposition, which makes it really imperative—and I do not want the Committee to think that I consider anything more important than this Committee, because as far as I am concerned, nothing is—for me to go to another meeting almost at once—a meeting which is already in progress. I would, therefore, if the Committee would permit me, like to say that I have read the brief very carefully, and have listened to the commendably short exposition of the brief. There are one or two points in it which I feel we will want to consider very carefully, which may very well lead to my view, as sponsor of the bill, that there should be some modifications in the bill, particularly as one or two of them reflect views that we have already been forming even before the brief was presented. It is a most helpful brief, and I felt members of the Committee would not object to my saying so.

Please excuse me, gentlemen.

The CHAIRMAN: The meeting is now open for questions. Mr. Jamieson.

Mr. JAMIESON: I wonder if you would be good enough to give us a rundown, or a general summary, of the type of people who constitute your membership. You mentioned that you have some 1,200 members across Canada. Is there a particular group which makes up the bulk of those, sir?

Mr. GRACEY: No, sir. There are approximately 550 firms who are members and these have maybe one or two members. The members follow roughly the industrial pattern of Canada. Approximately half of our members are located in Ontario and are national concerns and smaller concerns. Approximately 25 per

cent of our members reside in Quebec or the Maritimes. There is only one province in which we do not have a member and that is Prince Edward Island.

Twenty-five per cent of our membership is in the four western provinces, but we have in our membership all types of industry. We have department stores, extractive industries, such as iron ore companies, petroleum industries, forest products, as well as manufacturing concerns.

Mr. JAMIESON: Is there a substantial amount of usage of truck transport by your members? Do you have any records, or figures, to indicate just how much you use various modes of transportation vis-a-vis others?

Mr. GRACEY: This is a difficult question, but we sometimes say, perhaps loosely, that our members account for 85 per cent of the freight bill in Canada. The Wheat Board in Canada is not a member, and they have a very substantial freight bill, therefore they are excluded, but without that I would say our people pay approximately 85 per cent of freight bills in Canada.

Mr. JAMIESON: Are the western coal producers members of your organization?

Mr. GRACEY: No, they are not, sir.

Mr. JAMIESON: I ask this in relation to your first page, where you give your individual members the right to disagree. I am wondering if some of your members, particularly in heavy commodities, such as iron ore and the like, would accept your recommendation with regard to the treatment of the captive shipper question?

Mr. GRACEY: I feel that we have members who are handling substantial goods, such as iron ore companies and some of the people in the grain interests, especially the flour milling companies, and we have had no adverse comments regarding that.

Mr. JAMIESON: I wonder if you could give us—I suspect the other members of the Committee are as interested as I am—a little more elaboration on the part where you say: Leave this question of the captive shippers to the transportation commission? Do you mean simply in terms of defining what constitutes a captive shipper, or do you see the commission, in this particular case, establishing a different rate for all manner of different commodities; in other words, leaving a fairly broad avenue of approach to the commission by people who regard themselves as captive shippers?

Mr. GRACEY: Yes, we do. We feel that this is altogether too restrictive. It defines in one place what the captive rate is going to be, and I think we state in our submission:

...do not take into consideration some of the most important factors which have a bearing on freight rates such as type of commodity, density, value, loading characteristics.

In other words, as we say it in our own committee, sand would take the same basis as diamonds. This is not essentially fair. There has to be judgment in the setting of rates. You cannot just set a formula and have it apply to everything.

Mr. JAMIESON: Among your 1,200 members—and I am sure you must have, in your perusal of the bill, attempted to assess this—have you been able to



think of one or more or a large number of your members who might be classed as captive shippers, or who might regard themselves as captive shippers?

Mr. GRACEY: There are some who might elect to do that, for certain reasons. It might be beneficial economically.

Mr. JAMIESON: But would it, in your opinion, be economically beneficial under the terms of clause 336 as presently set up; that is, that portion of the bill which deals with captive shippers?

Mr. GRACEY: It depends on the commodity, sir. It might be agricultural chemicals, and he might not wish to; but a chemical firm might wish to. They might both be chemicals, but one, because the end use is to agriculture, might have a different outlook than a chemical shipper who is shipping resins, or something like that, for an industrial purpose.

Mr. JAMIESON: With the broad spectrum of membership that is involved—everything from department stores to manufacturers of iron ore, or producers of iron ore—is your association generally in favour of the basic principle of this bill, that is, to let the competition of the marketplace be, in most instances, the determining factor in freight rates?

Mr. GRACEY: This is what we said to the Royal Commission on Transportation. We believe that the railways should be freed of this restriction. We believe that there should be more competition. We believe that there should be room for movement, and not rigidity, such as is envisaged in this act.

Mr. JAMIESON: One last question, Mr. Chairman. In view of that, would you perhaps see your recommendations with regard to captive shippers as, in fact, destroying, to some extent at least, this competitive factor? In other words, you seem to want to give this commission a fairly broad set of powers with regard to dealing with captive shippers. Do you visualize or can you anticipate, that a large number of shippers might be coming and looking for individual rates, and, in fact, putting the onus back on the commission to determine freight rates in a fairly substantial number of categories of goods?

Mr. GRACEY: From Bill No. C-231, which draws up the requirements of this commission, we feel that with that background they should be able to administer this fairly.

Mr. JAMIESON: You see my point? If this were less specifically and clearly defined—that is, that the technique for declaring one's self a captive shipper, the technique that the commission must apply in determining a rate—if it were merely left as sort of saving clause and simply having the commission deal with a wide range of people who might come in and say: "Look I am a captive shipper," it seems to me that this could lead to the involvement of the commission, much more deeply than the bill intends, in the matter of setting rates.

Mr. GRACEY: Well, sir, we feel that the commission, because they have the expertise and all the background, will be in the best position of anyone in the country to judge the validity of any of these approaches which are made to them for special consideration. Surely they will be, just as the present Board of Transport Commissioners has built up a background of material—and we have been very happy with the Board of Transport Commissioners, on the whole, for



their expertise in this matter. The commission would be the best body to do this, rather than have them in a straight jacket of rigidity.

Mr. JAMIESON: Except that I think that the general tenour seems to indicate that there have been others who have taken the same view, that we are really looking for the best of both worlds. We are saying "Let competition really take over here," and then we are saying "but". I think it is that "but" that is terribly important in the over-all assessment of the bill.

The CHAIRMAN: Before we continue with further questioning, I would ask for a motion that we print the brief and the supplement as an appendix to our Minutes of Evidence and Proceedings today.

Mr. MATHER: I so move.

Mr. PASCOE: I second the motion.

Motion agreed to.

Mr. DEACHMAN: Mr. Chairman, I wonder if the witness can say whether or not any of the members of his organization are, themselves, captive shippers, in the sense that they have been unable to negotiate a rate and are prepared to apply for rates to the commission? Are there such members within the organization?

Mr. GRACEY: We have, in the past two or three years, discussed this, and some people have indicated that, for economic reasons, they might declare themselves captive, because they could gain advantages that they would not have under open rates.

Mr. DEACHMAN: Then by that definition, sir, you are prepared to say that there are captive shippers, that they do exist in your organization, and that you know who they are?

Mr. GRACEY: We know the people who might declare themselves as captive shippers; but from the west coast to the eastern parts of Canada, and vice-versa, most rates have been able to be negotiated fairly readily.

Mr. DEACHMAN: Yes; but you do not deny that, by that definition, it is quite possible that there are people, even within your own organization, who fit that definition of a captive shipper?

Mr. GRACEY: There could be.

Mr. DEACHMAN: Thank you very much.

Mr. V. G. STROUD (*President, Canadian Industrial Traffic League*): May I say something here? This is in the form of a question to you, sir. Are you thinking of a captive shipper in our group as someone who would be manufacturing large transformers who could not move these transformers from point "A" to point "B" unless they used a specially equipped railway car to carry, say, 120 tons. That type of person would not be able to move that equipment any other way.

Mr. DEACHMAN: No, sir. I am thinking of the shipper who is shipping general freight or freight that is not extraordinary in any way who finds himself quite unable to negotiate a rate and for that reason unable to deal with

the rail carrier, and he decides to go to the commission and ask the commission to fix the rate as it is set out in section 336, which we discussed many times in this Committee.

Mr. STROUD: Well, speaking as an industrial traffic manager I could not visualize any one of our members taking that view. I know I would not take that view. In other words, you might say we would be considering ourselves captive traffic to negotiate a lower rate. That is really what you are saying.

The CHAIRMAN: I think Mr. Deachman wants to know if there are any captive shippers, as defined in the act, within your membership.

Mr. DEACHMAN: That is right. Are there any as defined in the act within your membership. You seem to have a difference of opinion between the two witnesses at this moment as to whether or not they exist within your organization. May I read just the opening sentence of section 336 which says:

336. (1) A shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carriers may, if he is dissatisfied with the rate applicable to the carriage of those goods after negotiation with a rail carrier for an adjustment of the rate, apply to the Commission to have the probable range within which a fixed rate for the carriage of the goods would fall determined by the Commission—

Then it goes on to describe the procedures. My question is simply this: Are there people within your organization who fit within section 336 as I have read it.

Mr. STROUD: Yes, we feel that.

Mr. DEACHMAN: You feel that there are, and both of you feel that way that there are.

Mr. STROUD: Yes.

The CHAIRMAN: Can you name them, Mr. Gracey or Mr. Stroud.

Mr. DEACHMAN: And you know who these would be. I do not ask them to name them unless they wish to because I think perhaps we are dealing not with an actual case at the moment but with cases which, certainly, in your opinion, and in your experience, could arise. Therefore, by the definition in section 336 there are such things as captive shippers; is that correct?

Mr. STROUD: That is correct.

Mr. CANTELON: I doubt very much if there is any use of me saying anything because Mr. Deachman has pretty well handled the point which I wanted to bring out, and that was that there are captive shippers, in your view. This we have had over and over again. As you probably know, the railways insist that there are none. But it seems to me, and you have made it quite clear in your own statement, there are cases where there are captive shippers. There are places where there is no other way that the person could move his traffic and, hence, he is captive to the railway. That is all that I wanted to ask and you have already answered it.

Mr. MACEWAN: Mr. Chairman, this is with respect to page 3 of the brief where it mentions the matter of appeal under section 317. I wonder if the

gentlemen here this morning have with them or could give us an idea of the wording of the suggested amendment to sections 317(1) in order, as they put it: "provide a satisfactory safeguard for a shipper or locality." As it now reads, of course, it is under section 317. It is an act or an omission which prejudicially affects the public interest. Could you give us any idea of the wording of the suggested amendment for this section.

Mr. GEORGE PAUL (*Consultant, Canadian Industrial Traffic League*): I should answer you, sir, by saying that we would like to see in that section either public interest defined so that it would include individual shippers or localities. What we are afraid of under that section is that it may be rather strictly interpreted and that a shipper who may have a complaint against unjust discrimination would have to prove that it was prejudicial to the public interest. He would have to make a prima facie case under the present wording that it prejudicially affects the public interest. Now, the question is, does unjust discrimination against a particular shipper or against a particular locality constitute a prima facie case prejudicially affecting the public interest. We would like to have that clarified so that there will be no question that an individual shipper or a locality would have that privilege.

Mr. MACEWAN: I see. Perhaps it could be done in section 317 by way of making the first part (a) and put in a (b) to the effect that private or public interest shall include, and so on.

Mr. PAUL: Yes, sir. That would cover our objection, sir.

Mr. MACEWAN: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Paul, as I understand it, the way the clause is set out in the bill at the present time is in line with the recommendations of the MacPherson Royal Commission, where the right of appeal has been purposely limited to where the broad public interest has been concerned. I gather then that you disagree with that recommendation of the MacPherson Royal Commission?

Mr. PAUL: No, not all together. I agree with the recommendation except that I think that the public interest should be either defined or that it will be clear that a shipper or a group of shippers or a locality who feel that they are being unjustly discriminated against would have that right of appeal.

The CHAIRMAN: I am looking at it this way. When you get into definitions that is where you are presented with problems—when the limitations come in. Do you not feel where the broad public interest is concerned that the commission itself would be better to judge what is in the public interest, that it would be more flexible, whereas if you are going by definition then you are really limiting it more than you may wish to.

Mr. PAUL: Well, that may be so, Mr. Chairman, except our members feel a bit apprehensive about the present wording and would like some kind of assurance either in the bill or through the commission that these matters of unjust discrimination against a shipper, individually, shippers' groups, a locality or certain areas would have that right of appeal.

The CHAIRMAN: You see what I am getting at. I think you may be asking for more trouble than is presently within the bill when you start defining, and I



think that where there is a more general application of the principle you might be better off. It is just a thought.

Mr. PAUL: I was going to suggest where it says "prejudicially affecting the public interest" we could add "prejudicially affecting shippers or locality."

The CHAIRMAN: Well, I think that makes it worse. However, that is my opinion, not yours.

Mr. JAMIESON: May I ask a question on this point. The Canadian Manufacturers' Association had a recommendation for changes in the last line, which would simply say: may apply to the commission for leave to appeal the act that is regarded as discriminatory, omission or result, and the commission, if it is satisfied that a prima facie case has been made, shall grant leave. In other words, they can appeal first. Is this in line with what you are talking about?

Mr. PAUL: I think substantially, yes.

Mr. MATHER: Mr. Chairman, the question I was going to ask has already been covered by previous members, but I would say that my understanding is, with regard to captive shippers, that the railways dispute the fact that there is any such animal. They have never been able to find one and they more or less say there is none. However, as I understand it, the bill outlines the status of a captive shipper. Does this organization agree with the general outline of the legislation with regard to defining the qualities of the captive shipper?

Mr. PAUL: Mr. Chairman, I think generally we agree with the definition of captive shippers. Our main objection to this section of the bill is with regard to the rigid formula that is prescribed there and the fact that the formula does not take into consideration certain very important factors in rate making which, in our opinion, should be subject to judgment and not to a rigid formula which cannot be changed except by another amendment or act of parliament. We feel that where there is captive traffic the rate to be fixed should be left with the commission which would have all the relative material necessary to form a sound judgment as to the fixing of the rate.

Mr. PASCOE: Mr. Chairman, the witness has said that they represent 1200 shippers coast to coast across Canada. Do you have any idea what proportion of that shipment is by rail and what by other sources, or is it all by rail?

Mr. GRACEY: Oh, no, Mr. Pascoe, our members as I mentioned earlier, account for approximately 85 per cent of the nation's freight bill; therefore, it is 85 per cent of the truck bill and 85 per cent of the rail bill.

Mr. PASCOE: So this brief would represent pretty well the views of truckers too.

Mr. GRACEY: It reflects the views of our members regarding truck transportation as well as rail transportation.

Mr. PASCOE: In that regard, I think you said that one quarter of your membership was in the western provinces.

Mr. GRACEY: Yes.

Mr. PASCOE: In regard to the proposed elimination of the bridge subsidies for long hauls across northern Ontario, have you had any objections to that from your western members?



Mr. GRACEY: There was no substantial objection to this from our western members.

Mr. PASCOE: What effect would it have on long-haul shipments to eliminate that? Do you think that it would increase the freight rates for that east-west haul?

Mr. GRACEY: Many of the goods now travelling, as you know, sir, do not benefit from the bridge subsidy, and it is becoming less and less of a factor—although it is a fixed sum of money. \$7 million or something like that is given. But there are fewer and fewer commodities, for instance agreed charge movements do not qualify, nor do competitive rates qualify. Undoubtedly, if that is removed, the rates will likely go up on that particular section of the business.

Mr. PASCOE: Just one more question, Mr. Chairman. On the back of this presentation it gives a "Transportation Policy for Canada" and in this statement, "Rate Making and Publication" it says:

"Shippers and carriers should be free to negotiate rates, terms and conditions subject to the observance of regulations," etc.

Then they say:

"all tariffs of rates, terms and conditions for common carriage should be made available."

Do you mean that all should have, for instance, agreed charges? Should that be made public to all shippers?

Mr. GRACEY: Yes, they could be made available to all shippers.

Mr. PASCOE: You have no objection to that?

Mr. GRACEY: No. They are right now, as you know, sir.

Mr. PASCOE: Thank you, that is all.

Mr. BYRNE: Mr. Gracey, in an endeavour to clarify the scope of this bill you have asked for an amendment to section 3 (d) in which you would add "for hire or reward". I am wondering if it would not clarify the act simply to say "for hire". When you add "reward", there must be some gain in the movement of goods for someone one way or another. Would it not be better just simply to say "for hire".

Mr. GRACEY: We would be very happy with that.

Mr. BYRNE: Does your organization, Mr. Gracey, represent the Western Coal Operators' Association?

Mr. GRACEY: No. I was asked that question and we said no, but I might add we would be pleased to have them as members.

Mr. BYRNE: You have already answered that question, I am sorry.

Mr. GRACEY: Yes, we had answered that question, and I forgot to say that they would be eligible for membership and we would be glad to have them with us.

Mr. BYRNE: Do you have in your organization shippers with a volume of one or two million tons movement annually?

Mr. GRACEY: I cannot give the actual tonnage but if you are speaking of large companies like steel companies, if they are in that tonnage range, the answer is yes.

Mr. BYRNE: The Western Coal Operators were here yesterday and they told the committee—and many of us were aware of this before they appeared—that they expect to be shipping anywhere from one million tons, which is the present shipments to the Pacific coast, up to three million tons. They have a market which has a set figure—that is, a set price. Do you believe it would be beneficial to them for the government of Canada to legislate a rate for such a shipment, having regard to the fact that they have said they are captive shippers?

Mr. GRACEY: I cannot speak for them because they are not members of our organization. In a situation like that we have asked that the formation of a captive rate be left with the commission because we feel that they would be able to assess all of the facts. There are many, many facts in such a tremendous movement such as overseas markets, dockage charges, and things like that that have to come in. Transportation is but one part of the whole movement of the goods from the coal mine to its ultimate destination. In the submission, all of these factors have to be considered, I would submit.

Mr. BYRNE: Is that not what is anticipated in section 336?

Mr. GRACEY: If the rates are then rigid by statute that is all you could use. You could not use any judgment on these other factors. You would just be tied to the one formula. You would not be able to allow for unit trains. If you had a group of a hundred cars it would take the same rate as for one car in the captive rates—and yet there are benefits accruing surely to the carriers if they pull a hundred cars of the same commodity at the same time. Unfortunately, under the formula, a man with one car of coal would get the same captive rate as a man shipping a hundred train car.

Mr. BYRNE: They would have to be declared a captive shipper, though?

Mr. GRACEY: Yes, exactly, sir.

Mr. BYRNE: But these being what they are today, do you not think that negotiations between the two parties would probably bring about a better and somewhat more flexible arrangement?

Mr. GRACEY: I think that these two gentlemen have been doing this now for forty years, by negotiating with the carriers on problems such as this, on volume problems, on market problems, and on these different considerations. These men have not been tied in the past to rigidity of this nature.

Mr. BYRNE: You feel then that section 336 is too rigid?

Mr. GRACEY: It is too rigid, especially when it becomes statute. Times are changing; technological changes are coming so rapidly now in transportation that this formula may be out of date now. It very likely will be out of date in two or three years, and then you would have to come before parliament and say we have got to change the formula and this requires an amendment to the act.

Mr. BYRNE: Is there any likelihood that some of your larger shippers, such as a steel company, would be affected in any way by section 336?

Mr. GRACEY: We feel that they would be better off if section 336 was transferred to the commission.

Mr. BYRNE: Entirely.

Mr. GRACEY: Yes, the fixing of the rate with the commission.

Mr. JAMIESON: I have a supplementary question, sir. I want to understand clearly, and I expect the other members do, just exactly what you mean by transferring section 336. You are still, I gather, holding to the view as expressed in the bill that a man must ask to be a captive shipper even under your proposal. Is that right? In other words, you are not suggesting that the commission should go out hither and yon and say, you, in effect, are a captive shipper?

Mr. GRACEY: No. He would have to appeal and declare himself a captive shipper and say, I want a rate.

Mr. JAMIESON: Then the second point is that the commission would then have to decide whether he was, in fact, a captive shipper. The decision as to whether he was would still be one for the commission to decide. Is this right?

Mr. GRACEY: That is right.

Mr. JAMIESON: The commission might well say that you have no grounds on which to declare that you are a captive shipper, that you have been able to negotiate a rate and we feel that the rate is reasonable. In other words, the commission would still retain the power not to set the rate even if a man asked to be a captive shipper?

Mr. GRACEY: If he declared himself a captive shipper, and was so defined under the legislation that may stem from this bill—

Mr. JAMIESON: But by suggesting that the commission take over the functions of section 336 are you not leaving the definition to the commission? This is what I mean. This bill says that he must have no other mode of transport and that he must not be in a position to negotiate a rate. When that situation prevails, then he has to be declared a captive shipper. Now, what I am asking you is, should the commission then, in your view, be able to decide whether, in fact, he has made a case for being a captive shipper?

Mr. GRACEY: Yes, that is right.

Mr. JAMIESON: And they could say, well, you do not really qualify.

Mr. GRACEY: That is right.

Mr. JAMIESON: I think, one of the things that perhaps was not emphasized in the earlier discussion on whether you had captive shipper members or not, is the phrase in the bill that says you must not be able to negotiate a rate. Now, the railway position is, and has been before this Committee, that there is scarcely anyone in the country who has not, in fact, been able to negotiate a rate. This is why I am asking whether or not you would have any captive shippers under those circumstances. To put it another way, do you agree with the railway that there are shippers of large tonnages who cannot negotiate a rate?



Mr. GRACEY: But it says I think, in section 336 in line 18:

"If he is dissatisfied with the rate applicable to the carriage of those goods."

So he may have been able to negotiate a rate, and the carrier says, yes, I have negotiated a rate with him. But the shipper says he is not happy with this and surely it is under this provision that he could come and say, I am declaring myself a captive shipper.

Mr. JAMIESON: Invariably, I would suggest most shippers are not going to be happy. In other words, if they can get a lower rate, or if there is any hope that they can get one by declaring themselves captive shippers, they will do it. But the argument of the railway companies and of other witnesses has been that in the case of big bulk commodities in particular, where there is no competitive mode available, that the rate, in fact, now in existence is so much below what the commission would be likely to put into effect, even if there were no formula, that they have, in fact, a good deal of bargaining power even though they are in your terms, if you like, at the mercy of the railway, that this clause would not be of any use to them.

Mr. GRACEY: We have found on this point that the railways themselves now issue rates that are lower than this proposed formula, and that a man would be silly, therefore, to call himself captive.

Mr. JAMIESON: Well, that is exactly the point.

Mr. GRACEY: The only trouble is that if this comes in, what is to protect a man from his rates going up? The railways will be given more freedom of rates, and perhaps these very low ones will not remain in effect.

Mr. JAMIESON: But on the other hand, sir, may I ask you if you have any concern at all that if this man declares himself to be a captive shipper, in that act of declaration he, in a sense, is throwing himself on the mercy of the commission and he is suggesting that he will accept the rate the commission sets.

Now, let us assume that we follow the course that you are recommending and say, we are going to leave the commission wide open to deal with this matter. There is no formula; there is none of this variable cost plus 150 per cent—none of this—and we will let the commission decide what is fair. The man has already said that he will accept what the commission recommends. Suppose the commission comes in and says—just taking two figures—the rate was \$2.45 but really it should be \$3.50. In other words, I cannot imagine a major shipper shipping hundreds of thousands of tons, or even a smaller quantity, wanting this kind of freedom given to the transportation commission, particularly when he is working on a negotiated rate now. It would seem to me that it would be a worrisome thing to have to go to the commission and say, yes, we will accept your views. And what about if the railway makes a case for showing that the rate they are now charging is too low, because this kind of submission suggests that the other side has to be heard.

So what you are saying really, I suggest—and it may be the wise course; I am not arguing that at the moment—is that instead of the bill spelling out the ceiling beyond which a rate cannot go under a formula—whether this formula is right or not is beside the point—the commission should have this power, and



that there is no real ceiling in effect other than the good judgment of the commission, and the capacities of the railways and the captive shipper to argue it out in front of them. Am I interpreting that correctly.

Mr. GRACEY: That is the interpretation, and perhaps we have naively assumed that the new commission will be able to protect the interests of the shippers. We feel, as I mentioned earlier, that the Board of Transport Commissioners has, in the past ten years, done this substantially.

Mr. JAMIESON: One of the responsibilities of the commission is to protect the public interest, and one of the interests that the public has is to ensure that they do not have to put out large subsidies to the railway. So it certainly is not going to be the job of the commission, or their likely approach to things, to invariably come down on the side of the shipper who declares himself to be captive.

If too many shippers did that, and suddenly the railways said, we can no longer function, we want the subsidies back in again, then we are back in this whole question of whose interest is being protected or, conversely, whose ox is getting gored.

Mrs. RIDEOUT: Mr. Gracey, I notice you said that you have knowledge of the Atlantic provinces except Prince Edward Island. I just wanted to get your feeling on the particular problems presented by the Canadian National Railways in their brief regarding the reorganization of their less than carload and express services. I believe the service is called express-freight. It is new and it is only being tried out in the Maritimes. Canadian National have requested an amendment to the bill—they recommend that section 335 should be amended to remove less than carload freight rates—in order to continue what they call a new and improved service. I am not too sure that it is an improved service. They are probably just getting some of the wrinkles ironed out right now. They certainly have their problems. Have you had any reaction to this service? What would your impression be of lifting this freeze to accommodate the CNR?

Mr. GRACEY: Mrs. Rideout, we have heard from our members slightly, but not too much, as to the efficiency of this service. I might add that we are very pleased that carriers such as the CNR are trying to do something about the small shipment problem because this is one that is distressing not only in the maritime provinces but throughout the whole nation.

Many things have to be done to ease this problem of small shipments because our economy is being geared more to instant service and a variety of goods. We feel that if there are problems, as you indicate—and there may be bugs at first—other carriers have done the same thing on the Pacific coast, and we heard a great many complaints about those at first. It was called merchandise service. But now those complaints are gradually dropping off as the carrier takes corrective action.

As to the level of rates on LCL unfortunately we have not discussed this particular feature, and I am not qualified, nor is our committee qualified, to say anything about it today.

Mrs. RIDEOUT: I would expect that you would be interested in a small carrier. I understand you have a variety of interests in your organization and they would, I would expect, cover quite a large group. I suppose you are in

frequent contact with the Maritime Transportation Commission. Do you know if they have expressed any concern over these suggested amendments by the Canadian National Railways so far as lifting the freeze is concerned?

Mr. GRACEY: Unfortunately, I have not been in communication with them recently, but we do work closely with them.

Mrs. RIDEOUT: Yes. I just wanted it to be on the record that I am concerned.

Mr. PASCOE: Mr. Chairman, this is a sort of follow up to a previous brief. In this outline of transportation policy for Canada it says that the League firmly believes in the principle of free private enterprise in the transportation industry. Then it goes on to say: "Government ownership of transportation equipment and facilities should be limited to those instances relating to national development and pioneering where private enterprise cannot serve because of high initial and development costs."

Have you anything specific in mind in regard to national development and pioneering that the government should take over?

Mr. GRACEY: Yes, Mr. Pascoe; back on March 30, 1965, the then committee asked us about this. They said, more or less, "You are sort of asking for your cake and eating it, because you want the government to go in and do the pioneering and once they have opened up the country then you want it turned over to private enterprise to make a profit on it." This is a rather difficult question to answer.

An hon. MEMBER: It is a good question.

Mr. GRACEY: It was a good question. But this has been the dispute. Can it? Canada has been developed by the government going in first, opening up the territory and, say, putting through a railway line. Once they develop a town then a local carter or trucker takes on the role of the local distribution. This is what we wanted to have. There is no private enterprise who has the money to go in to develop the north, even as 60 or 70 years ago there was nobody who could develop the west without government help. But once the country is established we would like to see this revert to private enterprise as soon as possible.

Mr. PASCOE: I have just one more question along that line, Mr. Chairman. In this policy statement it says: "Charges for government facilities: Whenever practicable, the costs of building, operating and maintaining any transportation facility provided by government should be met by fair and equitable charges paid by those benefiting from such facilities, except as provided under the previous item of this policy." I am thinking now of highways and trucks, particularly, where the government builds the highways. Do you think the trucks are paying for that facility—for their proportion of it?

Mr. GRACEY: It is a difficult question. I know that, a week from Thursday, you will have somebody who will say "Yes". When I drive my car I feel that I am doing my fair share, and, therefore, they must assume the same thing.

Mr. PASCOE: I am going to ask this question when the truckers come here, anyway.

Mr. MATHER: Mr. Chairman, the witness made reference a little while ago to the very rapid technological changes in shipping and transportation. In the bill

there is reference to pipe line transport of commodities. I wonder if this organization has any views on the coming about of more shipment, through pipe lines, of bulk commodities, and, if so, do you have a policy on this and would you care to comment on this development?

Mr. GRACEY: Well, sir, it is a fairly new development and we are watching it very carefully.

At our last annual meeting we had a speaker come to us from Alberta to tell us about it. I think, at that time, the first plug had gone through 108 miles on a trial run, and that is all there was. However there are many other technological developments besides this, which are affecting things such as the container, which is an improvement over the piggy back.

Our friends to the south are developing all kinds of new equipment. We came across one that is being developed, which is very interesting, where they put eight of these containers on a railway car. When you listen to the railways speak of their earnings for containers or piggy back cars, particularly container cars compared to the ordinary box car, there are earning potentials there which are tremendous; and these earning potentials may out-date even our captive traffic definition. We have had people come to us from the United States and say that it is possible now to have container traffic move from New York to Los Angeles at the rate of 50 cents per 100 pounds in containers, unit trains.

When they come up with this kind of reduction it certainly indicates to us that any rigidity in trying to set up a formula today is going to be very dangerous for the future, especially if the only way we can change this formula is by an act of Parliament.

Mr. MATHER: You would feel, then, that the prospects of technological change and the effects of that change on transportation and shipping would underline your contention that the commission itself should have a judgment in the matter?

Mr. GRACEY: Yes; With the expertise they will have they will be kept up to date on these things, such as container ships coming into the ports; with ships turning around in six hours, instead of two or three days, the cost of transporting on ships is going to be reduced tremendously.

Mr. MATHER: It would be difficult for the House of Commons to draft legislation in detail, even in the committee, which would meet every development which is coming about, and in this case, this is so. Your contention is that there should be quite a judgment being left to the commission?

Mr. GRACEY: Yes, exactly.

Mr. REID: Mr. Chairman, I would like to ask the witness about the comments in their brief on clause 52, section 333(2) concerning their recommendations that the price lists be changed. My understanding is that this section was put in to allow the railways to compete with the trucking industry which had much more leeway in setting its rates. Is it true that the trucking industry does have much more flexibility in setting rates?

Mr. GRACEY: To a certain degree they do have more flexibility, but in the province of Quebec they cannot raise a rate except on 30 days' notice; in the



province of Ontario they cannot set a rate, or file a rate, except on 30 days' notice.

I am not sure about all the provinces but I know that in the province of Alberta they do not have to do this, because there is no regulation and no filing there. It may also be so, but I cannot speak with knowledge, in British Columbia, Saskatchewan and Manitoba, but those provinces all have certain regulations.

Mr. REID: Yes; but here we are dealing with interprovincial traffic which is regulated by the federal government, and at the present time I understand that the trucking industry can change its rates with a ten days' notice. This would apply to traffic moving from, say, Alberta to Manitoba or from Manitoba to Ontario, where the rates are regulated by the Board of Transport Commissioners.

Mr. STROUD: I think you have to consider whether you are speaking of a rate increase, or a reduction, if you are talking about the railways competing with truckers. Normally it would be a reduction that they would be seeking, and a reduction, even today, can be effected within three days.

The railways have another method where they file what they call a "rate notice", which can be effective the same minute. I could pick up the telephone and call the railroads and they will put a rate notice out for a certain rate, right on the telephone.

Mr. REID: Yes; this is what I was trying to get at, because we have been told that the railways were boxed in by the present 30 days' notice and that they were unable to be as flexible as the truckers when it came to making adjustments in their rates to take into consideration competition from other modes of transportation.

Mr. STROUD: This is only for an advance in rates.

Mr. REID: This is only for an advance in rates?

Mr. STROUD: Yes.

Mr. REID: But, of course, this is usually what they are looking for, anyway, and not particularly reductions.

Mr. GRACEY: I think, sir, it says in Clause 52(2): "Unless otherwise ordered by the Commission, when any freight tariff *advances* any toll previously authorized to be charged under this Act, the company shall *in like manner* file and publish such tariff at least *ten* days before its effective date." Therefore, it is advances, and we suggest that the 10 days should read 30 days, which is more in line with commercial practice.

If an industrial company is planning to increase its rates or charges for its product, they generally tell their salesmen and the salesmen go around and say: "Look, the rates are going up on December 1; if you want to order now, you get in your stock." In this way they give the man 30 days' notice. This is common practice. We say that we would like to have the 10 days amended to 30 days so that we could adjust, in case we have to change our price due to an increase in freight rates.

Mr. REID: Your testimony is that in most provinces, at least in Ontario and Quebec, 30 days is demanded by the province?



Mr. GRACEY: That is right.

Mr. SOUTHAM: Mr. Chairman, I had only a couple of questions, and one of them concerned the problem of captive shippers, which has been pretty well covered this morning.

The other thought is a follow-up of the subject touched on by Mr. Mather, and Mr. Gracey has made reference to it several times this morning. It concerns the rigidity of the act with particular reference to the technological changes in transportation as they come about. As an expression of this concern, I was wondering if Mr. Gracey would like to suggest that we have a clause added to this bill, an amendment to it, whereby a similar clause could be inserted as in the Bank Act, where the bill itself, or the law, could be revised on a periodic basis, every five or ten years, or something like this, to show a feeling for the preservation of the industry, and as an indication of goodwill to the industries and public who are using transportation? I am thinking of the Bank Act. We have to revise it periodically.

Mr. GRACEY: I do not think we would be happy with that. This is maybe a halfway measure. As I understand it, sir, you would leave the formula in the act and then it would be up for review in a certain period of time, every two or five years?

Mr. SOUTHAM: Yes; or just a general clause, Mr. Chairman, in the bill itself suggesting that the act will be kept modern and up to date and abreast of the technical changes which we can anticipate.

I can agree with you that in this day and age we cannot anticipate what is going to be the situation five years from now. Instead of having to make strong representations, and bring pressure to bear on governments to open up the act, have it reviewed periodically, the same as the Bank Act. This is just a suggestion that might give a little consolation to those who do express some doubts about the technological changes and problems which might arise.

Mr. GRACEY: It would bear largely on the period of time that you selected, because even in a year changes can come about, at the rate we are going nowadays.

Mr. SOUTHAM: I just thought I would like to have your advice on it, because you say you represent 85 per cent of the shippers of Canada, and they are actually going to be the people concerned with this legislation.

Mr. GRACEY: We would be happier leaving it with the commission and letting them review it day by day or case by case as they discuss the matter. Then they would keep the matter quite fluid. Of course, they get direction from the government, too.

Mr. SOUTHAM: My suggestion proposed a secondary safeguard. You would have the commission, and there would be no interference with that, and there is the act itself. We will do our best, as a committee, and Parliament, I am sure will do its best, as a forum, to make the best legislation we can, but we cannot foresee, or prophesy, what might be the case five years from now. I like the principle that is involved in the Bank Act, where it is automatically reviewed every ten years. I just wondered if this extra safeguard would be of some consolation to the shipping industry.

Mr. STROUD: Sir, we have had such a terrific experience with a government agency such as the Board of Transport Commissioners—it has been so good for all the shipping public of Canada—that if a similar type of commission is placed in charge of this bill we would be very, very happy. It may be wrong for us to take this attitude, but we have had such success—and I think the carriers and the railways have been reasonably satisfied with the Board of Transport Commissioners—that is why we are so prepared to leave it to this commission. Does this open the picture of your view?

Mr. SOUTHAM: I was aware of your view in that respect and I think this is pretty well the view of most people. I was putting forward this extra thought here, following along the doubts, expressed by Mr. Gracey, of a certain rigidity, that, this being the case, the matter could be reviewed. He mentioned several times in his answers this morning that they might have to come back to Parliament, and so on. I just wondered if you thought that there should be a time limit written into the act itself so that we would come back to review it. It would have nothing to do with the principle of the bill itself.

It is just a suggestion, and I thought I would like to have your comments on it.

Mr. BYRNE: My one question has been more or less covered by Mr. Southam. During these committee hearings we have heard suggestions from witnesses, and from members of the committee, that there appeared to be an affinity between the Board of Transport Commissioners and the railways; that is that they had become oriented toward the railways because of the long association with the railways, rather than being oriented toward the shipper. Would you like to comment on that?

Mr. GRACEY: Mr. Byrne, we have not won every case before the board, but every case that we have had we have felt that we were very fairly treated. We cannot expect to win every one.

If the railways have had a long affinity with the Board of Transport Commissioners, our affinity at the least goes back to 1916, which pre-dates the present term. It was called another name at that previous time.

Mr. BYRNE: In your opinion, then, there is really no substance to this charge?

Mr. GRACEY: I do not think so; any more than they could say it is a shippers' organization, or shippers-oriented, because we seem to win a fair number of considerations.

The CHAIRMAN: Gentlemen, that seems to be the end of the questioning.

I want to thank Mr. Gracey, Mr. Stroud and...

Do you have a question Mr. Stafford?

Mr. STAFFORD: Mr. Gracey, do the trucking companies at the present time need any permission to raise their rates?

Mr. GRACEY: Yes, sir.

Mr. STAFFORD: Would you just explain that. I am not familiar with this. How do they do it?

Mr. GRACEY: At the present time, in the case of the rates, say, between Ontario—and that includes St. Thomas—and Quebec, the carriers operating between the two provinces have a group called the Canadian Transport Tariff Bureau Association. They filed for an increase of 10 per cent, to be effective November 7th. They have approached the Quebec Transportation Board which hears such cases. They filed their tariff 30 days before requesting an increase. They filed it October 7th, say. The Canadian Industrial Traffic League and other associations requested a hearing on this matter of the increase, to make sure that the carriers justified this increase. I think it was a week ago Monday that the hearing was held at the Quebec Transportation Board, and no decision has been brought down yet whether the rates will go into effect or not on November 7th, nor their extent.

The carriers made, I believe, 11 different statistical submissions, and they had to support them before the Quebec Transportation Board. These witnesses were subject to cross-examination by the League and other people.

Mr. STAFFORD: That is traffic from Ontario to Quebec. What about Ontario traffic alone?

Mr. GRACEY: Within Ontario traffic the Ontario Highway Transport Board only requires the carriers to file their tariffs. There is no hearing; there is no regulation of truck rates. Shippers can go before the Canadian Transport Tariff Bureau Association and appeal the level of these rates, but there is no government intervention.

Mr. STAFFORD: Is there any government intervention other than between Ontario and Quebec?

Mr. GRACEY: I believe that in British Columbia the Public Utilities Commission regulates rates. In Saskatchewan there is a level of rates set by a provincial body and, I believe, in Winnipeg there is a group covering the province of Manitoba.

Mr. STAFFORD: You have mentioned already Quebec, British Columbia and Saskatchewan. How about the other seven provinces. Can they raise their rates at will?

Mr. GRACEY: In the province of Alberta they can; I know that. Or, they can lower them at will; that is, the truckers, but I am not familiar with the other jurisdictions.

Mr. PAUL: Mr. Chairman, may I further clarify the point brought up by the member and, that is, aside altogether from regulatory bodies a lot of industries have their own agreements with carriers like trucking carriers. In these agreements they provide for 30 days notice for increases usually, so that while the rates are not regulated, there is an agreement between the carrier and the shipper which requires 30 days notice.

Mr. STAFFORD: Say, in moving furniture, which is a point I am not familiar with, from Montreal to Vancouver, the trucking firms could increase their rates.

Mr. GRACEY: Not from Montreal to Vancouver.

Mr. STAFFORD: From Montreal to Edmonton, then.

Mr. GRACEY: No. All the rates in and out of Quebec are governed by the Quebec Transportation Board.



Mr. STAFFORD: Even though they are paid by someone in another province.

Mr. GRACEY: Yes, sir.

Mr. STAFFORD: I thought your first answer was that it was probably just if payment was to take place by companies in Quebec. So that works both in and out does it?

Mr. GRACEY: Yes, sir.

Mr. STAFFORD: Then, would you think that the railways should be bound by say the same restrictions in Canada today as the trucking industry?

Mr. GRACEY: Our policy for Canada, which we set in 1965, states under rate control, "except for captive traffic, the regulation of rates by a government agency should be discouraged". In other words, we will let the market place set the level of rates.

Mr. STAFFORD: Actually we heard from Mr. Sinclair and others, and, also, Mr. Gordon of the CNR; and they could not name any captive traffic at all. I am not asking you to name any names but do you feel that you can name examples—without asking you naturally because I realize your customers would not think much of you if you brought their name out in public; but you actually feel that you can name companies which you are aware of at the present time who would fall under the definition, do you.

Mr. GRACEY: Yes, sir.

Mr. STAFFORD: The railways have also informed us that they could not operate any cheaper than the formula sets out here—the variable cost plus the 150 per cent; it is impossible. They have examples they could name us but they did not where variable costs plus 300 per cent made the shipper very happy. Would you agree that they could ship cheaper than that; do you think they could? I am talking about clause 336.

Mr. GRACEY: It depends on the commodity. There are cases of commodities now moving lower than the proposed captive traffic formula.

Mr. STAFFORD: Yes, that is right. But, if they were, there would be no need to apply, would there?

Mr. GRACEY: No, but if legislation stemming from this bill comes through and the railways are given freedom there will be nothing to stop them from raising these fairly low rates at the present time.

Mr. STAFFORD: I am not criticising your answer in any way but, if you had heard the questions of certain members of this Committee, who are absent today, you would realize that they want all sorts of checks and balances on this new commission which is to be set up; for instance a competitive cost accounting department as check on the commission even with this formula. Of course, maybe by the questions here today, with certain members absent, it is different but, do you feel that there should be no formula at all?

Mr. GRACEY: There would be a formula which would be established by the commission.

Mr. STAFFORD: I think it was the Canadian Manufacturers' Association—I think their representatives who were here said that the railways have the best



cost accounting people in the world. I think they put it that way, and because of that then there would be every indication that any rate they set would be a very fair rate. Do you agree with that?

The CHAIRMAN: Please go to the next question which the witnesses will be prepared to answer, Mr. Stafford.

Mr. STAFFORD: That is all.

The CHAIRMAN: If it is the end of the questioning we would like to thank Mr. Gracey, Mr. Stroud and Mr. Paul for the fine presentation of their precise brief and the answers they have given to us. Thank you very much, gentlemen.

Before we adjourn until this afternoon I would like to bring to the attention of the Committee that there is a very short brief which will be presented this afternoon at 3.30, if it is possible. It is only a three page brief on one minor item by Wabush Mines. The witnesses will be the Chairman of the board of the Steel Company of Canada, and Mr. V. W. Scully; Mr. Frank Sherman, Jr., the President of Dominion Foundries and Steel Company. I would ask all members to be here promptly. Would they leave the house at 3.30 so that we can get these gentlemen on their way. It is only a short three page brief. This evening we will have the government of Saskatchewan brief which will not be too long.

There were a number of members who were asking about reducing the quorum. The quorum right now is 13. I just wanted to throw this out to the Committee for a short discussion. Do you feel that it is necessary that it should be reduced?

Mr. DEACHMAN: Mr. Chairman, I think the Committee would function better with a lower quorum. I note that throughout all these hearings we could have got underway anywhere from 10 minutes to half an hour earlier had we reduced the quorum to nine. After checking it day by day I believe we would operate ever so much more efficiently if—it is true that it might be valuable to this Committee to have more on hand when motions are being taken but I think, as we know, when motions come before the Committee, the Committee automatically re-inforces itself. For the taking of evidence I think we can get under way faster and work more efficiently, so I am going to make a motion now that during consideration of this bill the quorum be reduced to nine.

Mr. REID: I second the motion.

The CHAIRMAN: It is moved by Mr. Deachman and seconded by Mr. Reid that the quorum be reduced to nine. Is there any other discussion on it?

Mrs. RIDEOUT: What about during the clause by clause discussion.

Mr. DEACHMAN: During consideration of this bill. When we come to motions this is something else.

Mr. SOUTHAM: Mr. Chairman, I agree with Mr. Deachman on part of this matter but, on the other hand, would we, as a Committee, not leave ourselves open to certain criticism on the part of the general public in considering such an important bill with a small quorum and in view of the fact that we have just recently in the house reduced our membership on the standing committees to

some extent. I feel that we are getting down to a pretty small representation if we try to discuss intelligently some of the witnesses' briefs with just nine members present. It is just a thought. I am just wondering if this is such a—

The CHAIRMAN: The Chair agrees with you, Mr. Southam. This has been my contention, and I tell you quite frankly, and I said it to those who have put it to me—I speak strictly as a member of the Committee here—that this bill is of national importance and I am one who is opposed to reducing the quorum. I only put it forward because there have been some comments. I think out of 25 members 13 is sufficient and I think the members of this Committee realize the importance of this bill and should make it a point to be here on time when the briefs are being presented. Those are my comments. Are there any other comments.

Mr. REID: Mr. Chairman, I think the answer to some of this criticism is that although we now have reduced the number of people on committees the fact is that we have many more committees. In my particular case I am on three active committees, and it is not always possible for me to be along with other members at this Committee meeting when something which, perhaps, is more important to my particular constituency is discussed in another committee.

The CHAIRMAN: Mr. Reid, the answer to your question is that the legislation before this Committee is perhaps the most important legislation which has been before a committee in a long, long time. It is not dealing with inquisitions, perhaps, if I may use that term, but with government legislation which is of far-reaching national importance. Because of its urgency, I would suggest that the members of this Committee, as we have stated, many times should give it priority. This Committee takes, as far as many of us are concerned, precedence over many other committees, until this bill is dealt with. There are priorities and priorities.

Mr. STAFFORD: Mr. Chairman, I was a captive member of the Public Accounts Committee this morning for about half an hour and you could not tell that to Tom Lefebvre. When you are a member of all of these committees and other chairmen phone you and say: "If we do not get a quorum in the next five minutes we will have to adjourn," what are you supposed to do when you hear the pleading cries?

The CHAIRMAN: I leave that to the consciences of the members of this Committee who are dealing with the legislation before it.

Mr. CANTELON: I would like to move an amendment that the number be 11.

The CHAIRMAN: is there a seconder for the amendment?

Mr. DEACHMAN: Mr. Cantelon, would you settle for ten?

Mr. CANTELON: What is the difference?

Mr. DEACHMAN: I will go along with you if you will settle for ten.

The CHAIRMAN: The amendment is moved by Mr. Cantelon, that the quorum be 11. Is there a seconder? The motion is seconded by Mr. Jamieson.

Is there any comment on the motion and the amendment?

Mr. PASCOE: Do we have to ask the approval of the house before reducing the quorum?

The CHAIRMAN: We will have to bring it to the house once the Committee reaches a decision.

I will then put the question.

The motion was moved by Mr. Deachman, seconded by Mr. Reid, that the quorum be reduced to nine; amendment moved by Mr. Cantelon, seconded by Mr. Jamieson, that the quorum be made 11. All those in favour of the amendment please raise your hands. Amendment negatived.

An hon. MEMBER: Question.

The CHAIRMAN: I think it would be best to hold this motion until we have a full Committee this afternoon, if the mover will allow the Chair to exercise discretion in this matter.

Mr. PASCOE: Mr. Chairman, does it have to have unanimous approval in the house?

The CHAIRMAN: Oh, yes.

Mr. PASCOE: Well, we can oppose it there then.

The CHAIRMAN: That is why I wanted to discuss this matter with Mr. Deachman.

Mr. PASCOE: We will certainly oppose it in the house.

The CHAIRMAN: That is why I see no reason to put a motion through that will not go through the house, Mr. Deachman. I would ask you, Mr. Deachman, to reconsider your motion in the light of what might happen in the house. This will require unanimous consent.

Mr. DEACHMAN: I would like the question put, Mr. Chairman. We have faced this many times before in the house, and occasionally there has been opposition, but I think the principle has to be set in every committee and I ask that the question now be put.

The CHAIRMAN: I would say that since you are the co-ordinator of committees, Mr. Deachman, there is a kind of conflict of interest in your moving such a motion.

Mr. DEACHMAN: I stand for the reduction of quorums of all these committees, particularly while we are considering bills, estimates, public accounts committee. I think it makes them more effective and I am delighted to be able to move the motion and to see the question put. I will ask again that the question be put, Mr. Chairman.

The CHAIRMAN: Believe me if the Chair had any authority to delay the motion the Chair would. All those in favour of the motion, please raise their hands. Opposed? The Chair cannot vote, but the Chair will express its dissatisfaction. Carried. Motion agreed to.

#### AFTERNOON SITTING

The CHAIRMAN: Gentlemen, I see a quorum. We have before us for consideration this afternoon the submission of Wabush Mines. To my immediate right is Mr. V. W. Scully, Chairman of the Steel Company of Canada; then Mr. J. F. Howard, Q.C. counsel for Wabush Mines; Mr. F. H. Sherman, President of



Dominion Foundries and Steel Company; Mr. J. S. Abdnor, Assistant to the President, Pickands, Mather and Company, who are the managers of Wabush, and Mr. A. V. Harris of the firm of Riddell, Stead, Graham and Hutchison, chartered accountants for the Wabush Mines. We will proceed with the reading of the brief by Mr. Scully.

Mr. V. W. SCULLY (*Chairman, Steel Co. of Canada*): Thank you, Mr. Chairman. This brief is submitted by a captive shipper of iron ore within the meaning of section 336 of the Railway Act as contemplated by clause 53 of Bill No. C-231.

Wabush Mines is a large iron ore mining venture in Labrador in which the Steel Company of Canada, Limited and Dominion Foundries and Steel Limited own approximately 40 per cent. Over 4 million tons of iron ore are being shipped by rail this year from the mine to docks on the St. Lawrence River near Sept Isles, and more than that amount will be shipped each year for many years to come. The potential rate of shipment is 10 million tons per annum. The mine site is serviced by air and rail but there is no access by road. All our ore must move 276 miles to the docks by rail. The first 38 miles and the last 22 miles are by common carrier rail companies owned by participants in the mine. The vital connecting link of 216 miles is over the Quebec North Shore and Labrador Railway, which is a common carrier railway owned by a competitor of Wabush Mines.

Special cars have been designed and built and are owned by the mine. Each car, as that term is now accepted by the Board of Transport Commissioners, is designed to have 3 ninety-ton units, or a capacity of 270 tons per car. These units are connected into trains of 10,000 tons which move from mine to port and back as unit-trains with fast, automated loading and unloading.

Obviously in these unique circumstances the mine is interested in the protection to be afforded "captive" shippers under the procedure and formulas for establishing maximum freight rates in the proposed section 336 of the Railway Act.

A group of highly qualified independent consultants has considered the formula proposed. It is the consensus of this group that the formula, if applied in this case, would result in exorbitant rates exceeding any reasonable or rational basis for compensation to the railways concerned. At the present time the mine pays \$2.10 per long ton for the 216 miles of movement over the Quebec North Shore and Labrador Railway under an agreed charge. Our consultants advise that upon the application of the formula proposed the fixed rate to be derived would be about \$6.99. Details of these calculations are given in Appendix A.

It may be said with truth that no such rate would ever be charged in practice. It is submitted that it may also be said with truth that the mere possibility of such a rate demonstrates that at least in this case the formula said to protect the captive shipper furnishes no protection whatever.

The proposed formula is open to a number of criticisms. Perhaps no good purpose would be served at this time in developing such criticisms in detail as they are by the nature of the subject, technical and, of course, subject to a great variety of opinion. Three general observations may, however, be of interest.

The formula requires all fixed rates to be calculated initially on the basis of variable cost of "car loads of 30,000 pounds in the standard railway equipment for such goods." The standard equipment in our case is being loaded to 95 tons not 15 tons, so the formula requires the costing of 5 fictitious trains for each actual train that moves. The base of the formula is therefore artificial. The reduction permitted for heavy loadings is a maximum of 50 per cent of the savings in variable cost or 10 per cent to 15 per cent reduction in rate. While there are no cost figures published in Canada, figures published by the Interstate Commerce Commission in the United States indicate actual cost savings for a 100,000 pound car load over a 30,000 pound load is about 55 per cent. The indicated savings for shipments of the nature of ours is over 67 per cent.

The formula is based upon recommendations made in 1961 when unit-train movements were unknown. In the United States where unit-train movements are now common for bulk commodities, reductions of 40 per cent have been made from actual car load rates where the same commodities move in unit-trains. The resulting rates have been attacked by competing means of transport and have been found to be compensatory.

This should be compared to a maximum reduction of 10 to 15 per cent from a rate based on 30,000 lb. cars under the proposed section 336 even though the traffic actually moves in 270 ton cars and 10,000 ton trains.

- (c) The fixed ratio of 150 per cent to be added to variable cost is completely unrealistic for low-value, high-volume commodities. Again in the United States, I.C.C. figures indicate that existing rate levels contribute 29 per cent above variable costs as an average on all commodities. For bulk commodities the percentage is lower. For example, in the Eastern Region in 1962, Products of Mines contributed 9 per cent, Products of Agriculture contributed 19 per cent. The only public study available in Canada is that prepared for the MacPherson Commission on export grain movement. When calculating the level of subsidy for this movement the MacPherson report allows a contribution of 22 per cent and 24 per cent of variable cost for the CNR and CPR respectively (Vol. 1, pp. 62-67)

Since it is clear that the rate we will pay will never be quite as high as the maximum produced by the formula, though possibly several times a fair and reasonable rate, the most serious criticism of the formula is that we as a "captive" shipper have no protection under the proposed law from a railway controlled by a competitor.

It is observed that users of telephone and telegraph will be protected in that tolls for such service must be "just and reasonable" (Clause 68, Section 381(1) of the Railway Act). It is further observed that the Commission has the power to cancel tariffs for commuter passenger-train service or passenger-train service between points not connected by adequate highways if such tariffs are "unjust or unreasonable" and substitute tariffs satisfactory to the Commission (Clause 54, Section 338(4) of the Railway Act).

It is submitted that without complete assurance that the proposed protection for "captive" shippers affords some real measure of protection, the "just

and reasonable" rule should be retained and can do no one any harm. Under the legislation as drafted, the Commission is powerless to adjust a rate established under the formula for a shipper facing a monopoly situation even though the rate would be unfair and unreasonable. It is, therefore, respectfully urged that a further sub-section be added to the proposed section 336 of the Railway Act in the following terms:

"(17) Notwithstanding any other provision of this Section, the Commission shall, upon being satisfied that a rate fixed or to be fixed under the other sub-sections of this Section is or would be unjust or unreasonable, prescribe a fixed rate which is just and reasonable and such fixed rate shall, for all purposes, be deemed to have been made under this Section."

Estimate of "Fixed Rate" Under Bill C-231—Movement of Wabush iron ore on QNS & L from Mile 224 (Ross Bay Junction) to Mile 8 (Arnaud Junction)

	Assume 30,000 lb. cars	Actual Conditions of Movement
Out-of-pocket cost .....	\$2.68 per ton	\$0.72 per ton
Road capital allowance .....	.57	.25
Variable cost .....	3.25	\$0.97
Mark-up (150% of \$3.25) .....	4.88	
	8.13	
Allowance for heavy carloading		
Variable cost at 30,000 lbs. ....	\$3.25	
Variable cost at 190,000 lbs. ...	.97	
Savings on variable cost .....	2.28	
Allowance per Bill		
C-231 — 50% .....	\$1.14	1.14
Fixed Rate .....	\$6.99	

Variable costs include out-of-pocket long term costs plus costs based on an assumption that 50 per cent of road property investment assignable to freight service is variable. Equity capital is assumed to be 60 per cent of total and the rate of return allowed on capital is 5 per cent.

The unit costs used in the study are derived from the actual experience of the QNS & L as reported in 1963. Depreciation charges are those approved by the Board of Transport Commissioners for the QNS & L.

The CHAIRMAN: Thank you very much, Mr. Scully.

The first questioner will be Mr. Cantelon.

Mr. CANTELON: This, I think I am correct in saying, is probably the main topic with which we are concerned—that is, the matter of captive shippers. I



think I am right too in saying that this is the first time we have actually had any figures given us that would show us that the calculations under the bill do not, in fact, protect a captive shipper. This morning we had the Canadian Industrial Traffic League here and they said they thought there were captive shippers, but they could not actually give us any figures.

I would like to give you the opportunity of elaborating on your arguments, if you care to do so because, as I say, I think this is one of the main things we are going to have to deal with. Perhaps you feel that you have adequately proved your point. If you have, then I will pass on; but if you have not, I would be happy to have you add any more arguments, if you care to do so.

Mr. SCULLY: I might make an observation that perhaps is not clear to members of the committee. There are no transportation facilities whatever between the mine in Labrador and the pellet plant on the St. Lawrence River at Pointe Noire, Quebec, except the railway and air. Obviously you cannot transport bulk commodities of the quality of iron ore, although a cheap product, by air. Therefore, it has to come over the railway; we have no alternative. There may be other instances in Canada where the same thing prevails, but in Labrador there is no highway connection between this mining property at Wabush Lake and the river, other than by rail and air. In the figures, if the members will turn to appendix "A", we have attempted to illustrate the situation that would prevail if we are not afforded protection in the new legislation. The form of protection we now have is that we can go to the Board of Transport Commissioners for relief, if we are unable to negotiate a satisfactory rate with the railways. With the introduction of the formula which will bind the board as well as the shipper and the carrier, the figures on appendix "A" show—starting at the top on the left, we have based our figures on all the data we could get, and we are putting them forward with that in mind—that the variable cost comes to \$3.25 based on a 30,000 pound car. The mark-up, according to the formula, is 150 per cent—that is, 150 per cent of \$3.25, which brings the total of those two items to \$8.13. Now, because of the heavy loading, looking down the left column, the allowance for heavy loading takes the difference between the variable cost—the \$3.25 we set out above—the 97 cents, which we assume to be or calculate to be the actual cost of the movement. The difference between those two figures comes to \$2.28. The formula will allow us a reduction of half of that figure, which is \$1.14, bringing our rate down to \$6.99. You can very simply calculate the extraordinarily generous return to the railway, following that.

The CHAIRMAN: Before we proceed, may I have a motion to have appendix "A" of Wabush Mines printed as an appendix to today's proceedings?

Mr. LANGLOIS: I so move.

Mr. MATHER: I second the motion.

Motion agreed to.

Mr. CANTELON: I wonder if you would mind explaining how this allowance on the bill gives you a 50 per cent reduction. This is due to the heavy loading, is it not?

Mr. J. F. HOWARD Q.C. (*Counsel, Wabush Mines*): Yes, it is set out at page 43 of the bill. Section 336 (5)(b)(ii) provides if the carload weight is 50,000 pounds or more, at a rate to be determined by deducting from the fixed rate an amount equal to one half the amount of the reduction in the variable cost of the shipment of the goods concerned below the amount of the variable cost with reference to which the fixed rate was established.

Mr. CANTELON: Thank you. I understand that the railway that moves your product the most miles is owned by your competitor. Is that right?

Mr. SCULLY: It is owned by the Iron Ore Company of Canada.

Mr. CANTELON: I suppose this complicates the picture in that if there came a time when there was more iron ore coming out of the area than could be used, you could expect that the rate on your shipments might rise.

Mr. SCULLY: May I put it this way. If the legislation goes through the way it is we would be helpless if it did rise.

Mr. CANTELON: That is the point I wanted to make. It could be raised.

Mr. SCULLY: Yes.

Mr. CANTELON: You would have no protection under the legislation as it is today.

Mr. ALLMAND: In paragraph 10 of your brief, at page 3, you recommend a new subsection 17. Before doing that did you consider the appeal provisions in section 317 which allow a person, if he is dissatisfied to appeal? It says, "Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act" and so on, are against the public interest, may ask for an appeal. Subsection (3) reads: "If the Commission, after a hearing, finds that the act, omission or result in respect of which the appeal is made is prejudicial to the public interest, it may make an order requiring the company to remove the prejudicial feature in the relevant tolls."

Mr. HOWARD: Yes sir, that was considered. There are two features about it. First of all, in subsection (1) of section 317, the criteria for an investigation at all is that the rate must prejudicially affect the public interest. This group, Wabush Mines, had tried on another occasion to associate its endeavours directly with the public interest, and was told that the public interest was not directly involved in a lower cost of transportation of iron ore from this particular place. That is the first difficulty.

Also, under subsection (3), there is some doubt, I think it may be said, as to how far the order of the commission could go; whether it is limited to prejudicial features of the tolls or whether it is going to affect the rate itself, it has to be by way of report to the Governor in Council, presumably, to allow a different formula to be introduced. Those were the two factors that were in our minds.

Mr. ALLMAND: I have just one other question. Where did you get the information for this figure for variable costs which you have, \$3.25? I think you referred to it briefly. Is this, in fact, what the variable costs of the Quebec North Shore and Labrador Railway are?

Mr. SCULLY: We assumed, first, a 30,000 pound car, following the formula. I read down at the bottom:

"Variable costs include out-of-pocket long term costs plus costs based on an assumption that 50 per cent of road property investment assignable to freight service is variable. Equity capital is assumed to be 60 per cent of the total and the rate of return allowed on capital is 5 per cent.

"The unit costs used in the study are derived from the actual experience of the QNS&L as reported in 1963. Depreciation charges are those approved by the Board of Transport Commissioners for the QNS&L."

The details of these calculations could be made available to the Committee, Mr. Chairman, by our consultant, if the Committee would like to see them.

The CHAIRMAN: They could be tabled with the approval of the Committee, whenever they are available.

Mr. HARRIS: They are approximately available. Whether they are in a form that the Committee would understand I do not know. We have them, yes.

The CHAIRMAN: Well, it would be best that you make them available if you can, so we can table them and make them an appendix to our minutes.

Mr. ALLMAND: On page one of your brief, you say the first 38 miles of the line is serviced by common carrier. Is this the line from Wabush to the main line?

Mr. SCULLY: That is right.

Mr. ALLMAND: What common carrier is that?

Mr. SCULLY: That railway belongs to the Wabush group.

Mr. ALLMAND: I see.

Mr. SCULLY: It is a public carrier incorporated under Canadian charter.

Mr. ALLMAND: What about the last 22 miles?

Mr. SCULLY: That also belongs to the group. That takes the trains from mile eight on the Quebec North Shore and Labrador round the bay of Seven Islands to Pointe Noire where the pellet plant is.

Mr. ALLMAND: Thank you.

Mr. JAMIESON: Mr. Scully, in your opening remarks you said that you were a captive shipper under the act. Does this mean that were this to be implemented in its present form you would, in fact, declare yourself to be a captive shipper and take advantage of section 336 because it seems to me you are only a captive shipper under this act if you choose to be that. In other words, it does not automatically follow. I drew the inference from what you said that this six dollar plus rate would automatically be charged if this bill were to pass. Is this what you meant?

Mr. SCULLY: I will have to refer this to our counsel again.

Mr. JAMIESON: The fact is—and let me repeat this—that I cannot see you as a captive shipper in terms of this legislation. However, you may feel yourself to



be in other circumstances unless you, in fact, say to this new commission that you are a captive shipper, and ask them to establish a rate for you.

Mr. HOWARD: First of all, as I see it, the definition is in two parts in section 336, subsection (1). It says, if you are "A shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier..." that far applies to us directly. Then it says such a shipper may "if he is dissatisfied with the rate applicable to the carriage of those goods after negotiation with a rail carrier for an adjustment of the rate, apply..." and the formula is applied.

Mr. JAMIESON: Perhaps he is a captive shipper in these terms until he applies.

Mr. HOWARD: No, until he becomes dissatisfied with the rate applicable to his shipment and then, if he is dissatisfied, he may then apply. The fact of the matter is that our rates are in negotiation, and really what we are saying is that at the moment there is a limit imposed upon the other party to the negotiation that the rate must be just and reasonable or we can apply to the Board of Transport Commissioners and have one fixed that is just and reasonable.

The day after this bill passes, the limit is the formula, and we lose all our bargaining position. I suppose it assumes that we will be dissatisfied with the result of bargaining with no bargaining.

Mr. JAMIESON: Would either of you gentlemen be in a position to say whether, in fact, you will have to take advantage of, or ever have taken advantage of, your present ability to appeal to the existing Board of Transport Commissioners, or have you managed to negotiate on your own?

Mr. HOWARD: We had a very expensive case a few years ago in which the railways concerned attempted to obtain running rights over the QNS&L under section 196 of the bill. After that was over we negotiated an agreed charge, and that agreed charge is currently in the process of being renegotiated.

Mr. JAMIESON: But running rights is quite a different thing, is it not, from what we are talking about here? As I take it, running rights involves the use of your own trains on their roadbed; but in terms of the rate which you are now paying, and in terms of your relationship with the QNS&L, have you, in fact, ever had to submit this to the Board of Transport Commissioners, or have you been able, through your own negotiations, to arrive at the rate you are now paying?

Mr. HOWARD: Yes, we have had one set of negotiations which were successful.

Mr. JAMIESON: Well, let me put it another way. Is the rate you are now paying one which was established by the Board of Transport Commissioners?

Mr. HOWARD: No, it is one established by negotiation.

Mr. JAMIESON: Taking that into account,—this may be hypothetical to a degree—and assuming present circumstances and the existence of this bill as an act, you would not want to declare yourself a captive shipper, would you?

Mr. HOWARD: Not until we had found out whether the absence of a just and reasonable limit affected the negotiations of the people on the other side of the

negotiations. Our fear is that with no practical limit on the rates they can charge—that is, no practical remedy that we can get from a public body—their interest in negotiating toward our desires is gone.

Mr. JAMIESON: This may not be something that you are in a position to answer, but have you any evidence, or do you feel in any way, that the competitor who is also the operator of this railway has at any time utilized his extra bargaining power detrimentally to your mining interest.

Mr. SCULLY: No.

Mr. JAMIESON: I have another question, Mr. Chairman, if you do not mind.

You mentioned that the Wabush group owns the rail line from Ross Bay Junction to Labrador, Wabush City. Is that Wabush mines or is that a joint venture with the other mining company which is in there?

Mr. SCULLY: No. It is a joint venture. This is complicated. May I take a moment to try to explain it?

The physical railway between Wabush and Mile 224 is owned jointly by the iron ore company and the Wabush group. The physical property is not a railway; it is a physical thing. There are two railways which have running rights over this property, one owned by the Wabush group, which is the Wabush railway, a public carrier, and one by the iron ore company which is the Carol Lake railway, I think they call it, which is a private railway. Both of these operate their one trains from their properties to Mile 224.

Mr. JAMIESON: So that you own the roadbed and the track jointly, but you operate your trains independently over that section.

Mr. SCULLY: That is right.

Mr. JAMIESON: One other question, because, of course, it comes down to this matter of captive shippers: What about alternative routes? I am told that there has been some discussion about the possibility of creating what would be, in effect, a loop arrangement. For instance, going from Wabush to Gagnon and then down to Port Cartier. I understand there is a railway from Gagnon to Port Cartier, and there is a link that might be put in between Gagnon and Labrador City. Has this been given any serious consideration?

Mr. SCULLY: I would doubt it. The railway from the river to Gagnon is owned by the U.S. Steel Corporation. From there to Wabush is about 150 miles.

An hon. MEMBER: It is about 72 miles.

Mr. SCULLY: Then there is the bus from the Quebec side. But that railway is wholly in Quebec, from the point in Quebec to Wabush, I would guess about a total of 100 rail miles. In terms of costs of building that railway, I have no knowledge, but as far as we are concerned it has never been seriously considered.

Mr. JAMIESON: So that you see no practical likelihood that this—

Mr. SCULLY: Not when there are adequate railway facilities in existence now that can carry many times more tons than are required to be carried at the present time.

Mr. JAMIESON: I have only one other point which is more of an observation.

It seems to me that if QSM&L, or whatever it is, were to put you in a

position where you could not function, through a freight increase, the close-down of Labrador and Wabush mines would be unquestionably in the public interest. I do not think there is any argument there. I would be perfectly happy to make that case, and I think I would make it quite successfully.

Thank you, Mr. Chairman.

Mr. LANGLOIS: You were just talking about the capacity of the railway to carry many more tons than it is carrying now. Would you know how many tons of ore are being carried by that railway now, either by you or by Iron Ore?

Mr. SCULLY: I could make a guess—about 18 million tons.

Mr. LANGLOIS: About 18 million tons. What do you think the total capacity of that railway could be?

Mr. SCULLY: At certain additional costs, of course, for sidings and so on, I would think double that, perhaps.

Mr. LANGLOIS: It could double its capacity, and that would be the most?

Mr. SCULLY: I do not know what the infinite is, but certainly double would be practicable.

Mr. LANGLOIS: The ore that you mine at the Wabush mine is not sold on the open market, is it?

Mr. SCULLY: No. It is transferred to Pointe Noire where it is made into pellets and it is delivered in that form to the steel companies, ours and Mr. Sherman's and the Americans.

Mr. LANGLOIS: But it is not sold on the open market?

Mr. SCULLY: Some of it is, but only a small part of it.

Mr. LANGLOIS: The bulk of it is sold to yourself, in other words?

Mr. SCULLY: Right.

Mr. LANGLOIS: What happens to the ore that is mined by the Iron Ore Company. Does not the same thing happen there?

Mr. SCULLY: No; because some of it is owned and produced by non-steel producers. I do not know what the percentage of ownerships are in the Iron Ore Company, but some of the Iron Ore Company are not in the steel business.

Mr. LANGLOIS: They are not in the steel business?

The CHAIRMAN: Perhaps, Mr. Langlois, it might be a good thing for Mr. Scully to give a breakdown of the ownership of the Wabush group, and in that way you might have a better indication of where this iron ore from Wabush mines is going.

Mr. SCULLY: The two Canadian companies, our company and the Steel Company of Canada, have a 25 per cent interest in Wabush. Dominion Foundries, Mr. Sherman's company, has a 15 per cent interest. In the United States, Youngstown Sheet and Tube, Meadow Lake Steel, Inland Steel, Chicago; Pittsburgh Steel and Pickens-Mather and Company, among them, own 45 to 50 per cent, averaging from a minor interest of 5 per cent for Pickens-Mather, to 10 per cent for three of the others and 17 per cent for Youngstown. Two German companies, Mannesman and Haas, own 2 per cent each; and the Italians,



Finsider, own approximately 5 per cent interest. All of these companies, except Pickens-Mather are steel producers and use the material in their own plants. Pickens-Mather dispose of their 5 per cent interest.

Mr. LANGLOIS: What I want to get to, Mr. Scully, is that there is no chance that the Wabush Lake will take all the customers away from Iron Ore, or that the reverse will be possible either? Iron Ore would not at any time have any advantage in trying to squeeze you out of the market? Let me put it that way.

Mr. SCULLY: Well, there is a factor of cost involved here. If the railway were to make an exorbitant profit at our expense it would show up as a substantial credit against the steel costs of the people who own it.

Mr. LANGLOIS: What percentage of the tonnage do you occupy?

Mr. SCULLY: We are in the process now of moving up to 6 million tons capacity at Wabush, at the mine. That is 6 million from our Wabush, against 7 million for Carol Lake, plus whatever they bring out of Schefferville. I do not know what that figure is.

Mr. LANGLOIS: That is thirteen; and you said 18; so that there are five left for Schefferville?

Mr. SCULLY: I am not sure of the Schefferville figure.

Mr. LANGLOIS: But do you not think, then, that if they stopped your operations, because of too high a rail rate, about only 50 or 60 per cent capacity of the railway, as it is now, would be used, and then their transportation costs would go higher?

Mr. SCULLY: Yes; but they could set an unfair rate that would not shut down the operation. It does not follow that it has to be so high that it would put us out of business. It could be high enough to make—

Mr. LANGLOIS: You mean to say it would be unfair to you, but it might not be unfair to them.

Mr. SCULLY: Well, of course, this is where we need an arbitrator.

The CHAIRMAN: Wabush is interested only in their own interests, Mr. Langlois.

Mr. LANGLOIS: That I realize.

Thank you, sir.

Mr. LEGAULT: Mr. Scully part of the answer to my question you have given to Mr. Jamieson. Do I understand that the last 22 miles of the line which is operated by you are used by your competitor?

Mr. SCULLY: No; but it is a public carrier. You are talking about from Mile 8 to Pointe Noire, the 22 miles? It is a public carrier, and it has to carry whatever is offered to it; but, in fact, at the present time, nothing moves over that section of the railways other than our—

Mr. LEGAULT: Than your own.

Mr. SCULLY:—iron ore coming down, and supplies, oil and so on, going up to the mining project.

Mr. LEGAULT: I see. To come back to your appendix A, I notice that you have used for the variable cost figures which have been produced by the I.T.C. The cost here is \$3.25. Would you say that this would compare with your own figure which you have calculated because of the line that you do operate? Would these be favourable?

The CHAIRMAN: One moment, Mr. Legault. The figure of \$3.25 is for the variable cost, but there is no statement that it was never produced by the I.T.C. Perhaps someone can explain where that figure came from.

Mr. LEGAULT: I understand that the figures were produced by others—that there are no cost figures published in Canada, and these figures were obtained for this purpose from other sources.

What I am trying to get at is that these figures could have been obtained right in your own operation itself. Would this reflect your own operation?

Mr. HARRIS: These are 1963 figures, sir. In 1963 Wabush Lake railway and Arnaud railways were still being built and they only operated in that area with the Quebec North Shore and Labrador Railway and the QN&L figures are the basis of the figures which are used herein.

Mr. LEGAULT: Then they are your competitor's figures? You have no idea at present what your own would be on these two sections which you are operating so that you could base your calculation on your own estimates?

Mr. HARRIS: It is quite a different type of operation, sir. Wabush Lake will move about four million tons this year on the north section; and the south section, the Quebec North Shore will move a good deal more than that; they are moving 18 to 19 million tons on the joint section, and some more on the north section. Costs, unitwise, become quite different because of the increased volume.

Mr. LEGAULT: But would this not give you some idea about what it is, and would you say that this figure is favourable?

Mr. HARRIS: It is a bit difficult to compare them, because QNS&L have been in existence since 1954, and have been operating mile-long trains every year since then. Wabush Lake and Arnaud have been in operation for just over a year.

Mr. BLOUIN: I have only one question, Mr. Chairman.

In the brief it is mentioned that you are using the Quebec North Shore and Labrador Railway for 216 miles. Do you mean to say, Mr. Scully, that you are not covered, or protected, by the Canadian Railway Act in these 216 miles? I have always understood that the Quebec North Shore and Labrador Railway is a common public carrier.

Mr. SCULLY: Yes, sir.

Mr. BLOUIN: So that you are not covered by the present Canadian Railway Act?

Mr. SCULLY: Yes, we are; but the protection we now have is about to be removed if this bill is enacted. This is our whole point.

Mr. BLOUIN: This is why you are here today.

Mr. SCULLY: That is right.

Mr. BLOVIN: Thank you.

Mr. REID: Mr. Scully, I was very interested in the testimony you gave in answer to some questions Mr. Langlois asked.

I am interested in knowing what the capital cost, approximately, of the Quebec North Shore and Labrador Railway would have been when it was built in 1954. Would you have an idea of what the cost of that railway was?

Mr. SCULLY: I have it somewhere. It was somewhere in the order of \$100 million or more.

Mr. REID: \$100 million or more.

Mr. SCULLY: That is a wild guess; I do not know.

Mr. HARRIS: The figure that sticks in my mind is \$120 million, of which \$80 million was applicable to the joint section and the rest was applicable... That is just the road property; that does not include equipment.

Mr. REID: The Quebec North Shore and Labrador is a common carrier. This means, then, that the rates which are charged to you are the same as the Iron Ore Company is charged by the railroad?

Mr. SCULLY: I do not know that, but I would assume that is right.

Mr. REID: If it is a common carrier these rates would have to be posted, unless, of course, they had been able to arrange a better agreed charge than you have.

Mr. SCULLY: Perhaps so; besides, they get it back, anyhow.

Mr. REID: Yes, that is true.

You real point is that you are worried about the definition of a captive shipper. You do not have to become a captive shipper unless you so desire.

Would I be correct in assuming that you are afraid that the railway will raise your rate to a point which they have defined as the maximum possible under the formula that you have worked out for us, and, because they do have this maximum to which they can go, your present comfortable situation will be destroyed? In other words, there is going to be pressure on you to raise your rates, with the knowledge of the railway that, even if you do make application to the commission, you are going to have to pay more within a certain limitation?

Mr. SCULLY: That is right.

Mr. REID: You are afraid that this will destroy your competitive bargaining position with the railway?

Mr. SCULLY: Exactly.

Mr. REID: Thank you, Mr. Chairman.

Mr. SOUTHAM: I just have one question, Mr. Chairman.

In paragraph 5 of your brief you say: "A group of highly qualified independent consultants has considered the formula proposed." We as a committee, have been questioning a lot of figures which have been presented to us by railroads and other bodies, and I am interested in this statement. Were these highly qualified independent consultants a Canadian firm, or an American firm or who are they?



Mr. SCULLY: They have these particular consultants, sir: Mr. Fairweather, a transportation consultant in Ottawa and former vice president of the Canadian National Railways; Mr. A. V. Harris, who is present here today, of the firm of Messrs Riddel Stead Graham & Hutchison, Chartered Accountants in Montreal; and Mr. Ford K. Edwards, of Messrs Edwards & Peabody from Washington, D.C., who has a great deal of experience on this type of problem in the United States. These are whom we refer to as our consultants.

Mr. SOUTHAM: Thank you, Mr. Chairman.

Mr. STAFFORD: I would like to ask the Minister a question in view of the answers already given, even though I was late coming in this afternoon.

Could the Minister give us some idea of a proper amendment to the formula set out under section 336 so as to give Wabush Mines the proper protection in a case like this?

Mr. PICKERSGILL: Of course, the word "proper" would have to be defined before I would wish to answer the rest of the question.

If it is assumed that, apart from a maximum rate, a public body should define how much profit a railway is to be allowed to make, on rates lower than its maximum rate, but is not to regulate in any way the amount of profit a mining company is going to make, that does seem to be creating one kind of regime for railways and another kind for mines. In other words, you are saying that a mine can make as much profit as it can, without any regulation whatsoever by the public, but a railway must not be allowed to use whatever bargaining power it may have in the economy to do the same thing.

I do not know whether that is a fair definition of the situation. It is envisaged, when one uses the word "profit" rate, that it is a request by someone who is operating in the free section of the economy, if I may put it that way, to say that someone else also engaged in the business should have his freedom limited by the actions of parliament.

Now we have, of course, a long history of doing that to railways. The purpose of this legislation, below the maximum rate, is in the main to get rid of that. I just pose the problem that way as a problem in this field. On the other hand, I think it is quite true to say that situations do arise. The Quebec North Shore and Labrador Railway was, of course, there before the Wabush Mine was opened. The opportunity was there before the mine was opened for the company to make a bargain with the railway, a long term bargain. But, of course the Company could argue on the other side—I am trying to be absolutely fair in this—that they did not need to make a bargain because they had the protection of a benevolent state which regulated the rates and that we are changing the rules—if I may put it this way—after the game has been started. I am trying to state all the elements in this situation as I see them. It is because situations like that can arise in this transition from a controlled economy for the railways to a relatively free access to the economy for the railways—which I think a lot of us have not quite through our heads is the purpose of the legislation or one of the purposes—that period of transition must not be made too difficult.

Certainly, we do not want the railways in their sudden freedom to do silly things that are really going to interfere with public interest. I would be the

first—after all not only am I a Minister of Transport but I am also a member of parliament for Newfoundland in which this mine is situated, and I emphasize that fact—to regard it as contrary to the public interest to have anything done by Quebec North Shore and Labrador Railway which would in any way prejudice the viability of this mining operation which is very important, not merely to Newfoundland but, in my view, to the whole of Canada.

I am not sure I entirely agree with the witness who is counsel for the other witnesses today, but I am not a lawyer, that the appeal provision that is in the bill at the present time is quite as narrow in its concept of the public interest as he seems to think it is. But its purpose of course is to deal precisely with this kind of situation where, because of certain physical circumstances, the economic power of a railway could be used in a way which would not merely get a little larger share of the profits of an operation which both parties were engaged in, but would really in any serious way interfere with that operation to the detriment of the public.

I am not quite sure that I am satisfied yet, in the light of a number of representations we have received, including the representations from the witnesses this morning and some others, that we intend to leave the appeal provision in exactly the form it now is in this bill. I think I ought to be quite frank with the Committee and say that I am considering quite seriously proposing myself, at my own initiative, to the Committee some alterations in it about which I have not finally made up my mind and about which, of course, I will have to have the approval of my colleagues since it is a government bill. I think there is a real point here and a very serious one. It is particularly aggravated by the fact or which does appear to be a fact, that the Quebec North Shore railway is wholly owned by the same people who own the iron ore. I am not going into the fine details of the corporate relationship between them. It could be argued, of course, that the whole operation of Quebec North Shore and the iron ore company would make just as much money regardless of what the railway rates were, applied to their product. I think they would not agree with this argument. They would point out there are some imperfections in it, but it is an argument and a serious one. Therefore, I do think we want to make quite sure the fact they own a mine that is marginally competitive, and could perhaps be a little more than marginally competitive if times got bad and for some reason or other the steel companies could not sell all the steel they could make, which we hope will never be the case, that in those circumstances there could be, what might be regarded by most people as, unfair competition. In any case I am quite impressed by the problem that is posed in this brief.

As I say, if the legislation does not adequately meet the problem now it would certainly be my endeavour, and I am sure I can speak for the government, to suggest to the Committee and to parliament some modification in the appeal provisions which would meet the situation.

Mr. STAFFORD: I have just one question. In view of what the Minister said, Mr. Scully, would you care to make any additional remarks which might throw a little more light on this particular problem?

Mr. SCULLY: I think the Minister has covered it very successfully with perhaps one important omission. We operate in a pseudo free economy. There is no question about this railway being a monopoly. It has no competition. We

have a duty, not just domestically but internationally, I think, to keep our costs for making steel at the lowest possible level if we are going to survive. I am not criticizing, I want that understood, but I think it is a function of the government to see that monopolistic powers are not ill used.

Mr. PICKERSGILL: I think I could accept Mr. Scully's amendments without any alteration at all. I think this is really a pretty fundamental difference.

The CHAIRMAN: I am sure when Mr. Scully said he keeps cost down he includes seaway tolls—I would think, Mr. Pickersgill.

Mr. BLOUIN: Mr. Pickersgill, if we are going to have—I say we because according to the Churchill Falls development there is going to be a lot of freight going on the Quebec North Shore and Labrador Railway—no protection to cover these people sending freight through on the Quebec North Shore and Labrador Railway, what is going to be done. If I understand at the present time there is nothing in the act covering the public in general. Still, it is a public carrier, a common carrier and I am given to understand they will average 100,000 tons of freight next year going in through that railway.

Mr. PICKERSGILL: Any shipper on that railway would presumably have the protection of the maximum rate formula in this bill, if, in fact, there is no competition. While I quite agree there is no effective competitive way of shipping the iron ore, that may not be true with respect to Churchill Falls because the railway does not go nearer than a 100 miles to Churchill Falls and the railway can only carry part of the way and it may well be there may be other cheaper ways. There may be a competitive situation, but if there is not, of course the shipper would be covered by the provisions of both the maximum rate formula and the appeal privileges. The other thing is that almost any of that freight is going to be a sheer bonanza to the railway, if I may put it that way, because they do not have much to carry north. They carry all the ore south. They are not going to put up their rates so high that they are going to lose the traffic. I really think that, in itself, would be a pretty effective protection.

Mr. BLOUIN: The shipper still has to be protected.

Mr. PICKERSGILL: We do not expect the state to protect everyone in every respect. Even you and I are not protected entirely.

The CHAIRMAN: If there are no other questions, I will thank Mr. Scully, Mr. Sherman, Mr. Howard, Mr. Abdnor and Mr. Harris for being with us today. I would also like to thank the Minister for being here.

Before we adjourn, I want to bring to your attention again the fact that the Committee will reconvene at 8 o'clock this evening to hear the brief of the government of the Province of Saskatchewan; and tomorrow at 3.30 o'clock we will hear the brief of Mr. Molgat, the leader of the opposition in Manitoba.

*(Recorded by Electronic Apparatus)*

#### EVENING SITTING

TUESDAY, November 1, 1966.

● (8.10 p.m.)

The CHAIRMAN: Gentlemen, we have a quorum. We have before us tonight a brief submitted by the government of the province of Saskatchewan by the



counsel for the government of Saskatchewan, Mr. Gordon Blair, I will ask for a motion that the brief be printed as an appendix to our Minutes of Proceedings and Evidence as Mr. Blair will just read a summary.

Mr. CANTELON: I so move.

Mr. SOUTHAM: I second the motion.

Motion agreed to.

Mr. GORDON BLAIR (*Counsel, Government of Saskatchewan*): Mr. Chairman and gentlemen, it is indeed an honour for me to have the privilege this evening to present a brief on behalf of my native province and I wish to express the appreciation of the province and myself to the Committee for hearing this brief on very short notice. I also wish to apologize to members of the Committee for the fact that it was not possible for the brief to be prepared and distributed until this morning, and I am particularly sorry that time did not permit an adequate French translation to be prepared.

I propose this evening to give a little background about this submission and, since I know that most of the members of the Committee have not had a chance to read it in detail, I thought that I would offer comments on the main features, but I hasten to add that I will not attempt to read this long submission.

First of all, I should say, that this brief was prepared by the government of Saskatchewan in collaboration with important organizations in the province, namely, the Saskatchewan Association of Rural Municipalities, the Saskatchewan Association of Urban Municipalities and the Saskatchewan Federation of Agriculture. I am advised by the Government of Saskatchewan that these organizations approve of the general approach and the conclusions reached in this brief.

As the members of the Committee know, this legislation has a long history. It emerged first as Bill No. C-120 in September of 1964. There were hearings before the old committee of this house on railways, canals and telegraph lines during a good part of 1965. During this time, the province of Saskatchewan, along with other provinces, including Alberta, Manitoba and the four Atlantic provinces, made a number of joint submissions to the Department of Transport, about the text of Bill No. C-120. There were informal discussions and there were formal submissions and one important one was made in April of 1965 to the department and in July of 1965 the premiers of all these provinces made a submission to the Prime Minister of Canada and to the Minister of Transport. In all of these discussions the province of Saskatchewan played an active role.

On behalf of the province of Saskatchewan, I should say first of all, in commenting on this legislation, that it is regarded as a tremendous improvement over Bill No. C-120. We think that the Minister and his department are entitled to great credit for the way in which they have tried to accommodate, to the fullest extent possible, the many suggestions made to them for the amendment of the previous bill. Speaking for ourselves, we also feel that the province of Saskatchewan and the other provinces, which joined in this long and intensive study, can claim some credit for the production of this legislation. There has been, in many ways, a joint and a co-operative effort to produce legislation which in the submission of the government of Saskatchewan will

produce a transportation structure appropriate to the last part of the twentieth century and one which will be capable of serving the growing needs of the Canadian economy.

Gentlemen, if you would care to follow me in my run through the bill, I refer you to page 2, where at the bottom of the page the six items which are regarded as most important by the province of Saskatchewan are listed. I will deal with each of these in turn.

The first is the National Transportation Commission which is discussed on page 3. The province of Saskatchewan approves of the creation of this new and important agency, because it regards it as an essential and important step towards the better integration of transportation policy in Canada. The province has three concerns. The first is about the membership of the commission. It is agreed on all sides that the paramount concern of the new commission should be with the national interest broadly expressed, but it is the submission of the province of Saskatchewan that this national interest cannot be served unless due regard is paid to important regional interests. Capability and confidence must be the first requisites of the members of this commission; but they must be men of broad understanding who can comprehend the important regional interests which have to form part of a national transportation policy.

The second concern of the province is expressed on page 4 of the brief, where we discuss the possibility of having some kind of an advisory council on, or through which provincial governments and other regional organizations could express and make known views on transportation policies. We think that this would provide an important agency to furnish information to the commission on the regional development of the country which will be so important for its future growth.

The third concern is expressed as a desire to see this new commission, not sitting altogether in Ottawa, but actually represented in different parts of Canada by regional offices. I suppose with modesty we could suggest no better place for a prairie regional office than the city of Regina, which is in the middle of the prairie provinces. Mr. Pascoe might think it should be Moose Jaw.

The second, and by far the most important part of this legislation, from the standpoint of the province of Saskatchewan, are those provisions which are discussed at page 5, dealing with rail rationalization and the abandonment of uneconomic branch lines. This by all counts was the aspect of the initial legislation which caused the government of Saskatchewan the greatest concern. At the time that legislation was published, there were upwards of, I think, 5,000 miles of lines in the province of Saskatchewan for which railway companies had applied for abandonment. The potential disruption of commercial and social life in the province was almost too horrible to behold. Farmers, businessmen and municipalities all would have been very severely injured by this scale of abandonment.

In our brief at pages 5 and 6, we have referred to the shortcomings of Bill No. C-120, in dealing with this important issue, but these comments are now really only matters of academic interest, because in the main and, I should say almost entirely, the new legislation takes full account of the suggestions for

improvement which were made. I should like to summarize positively the features of this legislation which meet so much with the approval of the government of Saskatchewan.

First of all, the policy announcement made by the government of Canada, reserving a basic rail system for a period of 10 years, will give security and confidence to the users of rail service in the province.

Second, the new commission has complete authority to deal with applications for abandonment of lines taking into account every issue which ought to be properly considered. There is no division of authority between two agencies as was contemplated in the initial legislation.

Third, and most important, the new commission is directed not only to have regard to the losses which railways might experience in the operation of some branch lines but to consider broadly the social and the economic implications of abandonment; perhaps what is most significant of all, to do this on an area basis so that the transportation needs of different parts of the province can be regarded as a whole, leading, it is hoped, in cases where abandonments occur, to an integration of railway and highway systems, all for the purpose of promoting efficient transportation.

There is only one comment of a specific nature about the abandonment proposals and that occurs at the top of page eight.

At the present time the bill appears to make it a matter for discretion by the new commission whether or not there will be public hearings in the case of any applications for abandonment. The province of Saskatchewan respectfully suggests that in every case where this important matter is raised before the commission it should be mandatory to have public hearings, although we observe later on this page that we do not suggest a hearing be held for every small line which might be involved, but rather that hearings should be organized on an area basis. It is vital and important in the province's view that the people who are affected by abandonment should have the right to appear before the commission and state their views.

The next most important part of this legislation from the standpoint of Saskatchewan are those sections which deal with the Crowsnest Pass rates and other statutory rates. The significance and importance of these sections would be appreciated when it is realized that for the last year for which statistics are available—1963—66 per cent of the total volume of rail traffic in Saskatchewan moved under the statutory rates. The government of Saskatchewan is pleased to see that this legislation guarantees the continuance of these rates.

In relation to Bill No. C-120, the government had objected strenuously to an original proposition that provided for the payment of fixed sums, referable only to Crowsnest Pass rates to the railways. It has always been the belief of the province of Saskatchewan that if public support is required for the continued operation of the railway system of Canada, it should be not tied in any way to specific rates or to specific movements. The province is extremely glad that this objectionable feature of the original legislation has been eliminated. At the same time, the province of Saskatchewan has never objected to the suggestion that the railways should be reimbursed for any actual and proven loss connected with the movement of grain under the Crowsnest Pass rates. As you know, the legislation now provides that within a period of three



years the operation of these rates will be reviewed and if losses are proved, then compensation may become payable. In view of the extent and volume of wheat shipments in the province it is not believed that losses will be shown to have occurred under the statutory rates.

Next I wish to deal with the question of unjust discrimination and undue preference which is dealt with at page 11. Saskatchewan is extremely concerned about the elimination of the existing provisions in the Railway Act protecting shippers against discrimination. The reason for its concern is that it has had recent experience with discriminatory freight rates which have discriminated against developing secondary industry in the province of Saskatchewan competing with established industries of the same type in other parts of Canada.

I think I can summarize the concern of the province about this section under two heads: First, as the members of the Committee will appreciate, nobody can raise a case of discrimination before the commission unless he is able to show that the rates which are charged prejudicially affect the public interest, and he must make a *prima facie* case in order to qualify for a hearing. The term "public interest" used in this context appears to be a very inelastic and inappropriate concept. What we really must be concerned about are important private interests which can be prejudicially affected by discriminatory rate-making practices. We must envisage that shippers in this province, or in other parts of Canada, may be so prejudicially affected by discriminatory freight rates that their business might suffer or they might be driven out of business. In my study of this section I cannot come to the conclusion that however grave the injury suffered by a particular shipper that it can be elevated to the position where it may be said to be a matter of public as opposed to private interest.

The second matter of concern that we have with this section is that a very high barrier is imposed against shippers claiming relief. They must come twice to the new commission: The first time to ask permission to make a case and the second time to make the case if that permission is granted. We do not think that anyone here should be unduly concerned about the possibility of the commission being flooded with cases of discrimination, because the physical and financial facts affecting applications which must be made to a board in Ottawa are such that only the most serious and grave cases of discrimination will be brought before the board.

As our submission states in some detail, we respectfully suggest to the Committee that very serious thought be given to loosening this section, not to opening it so wide that frivolous or fractious cases may be brought, but rather to broaden the language in such a fashion that every member of the Committee can be sure that a shipper with a bona fide claim against harmful discrimination will have a right to be heard.

Next on page 12 we deal with the question of the bridge subsidy and in this respect I simply would like to record the pleasure of the province of Saskatchewan that its initial proposal to the government of Canada as to the orderly phasing out of the bridge subsidy has been adopted.

Next, the question of costing procedures is dealt with at page 13. This is a vital and important technical function, and it would be a waste of your time to try to comment on it in detail here. There is one feature, however, which we

think should engage your attention and it is dealt with in our submission at the top of page 14. As presently worded, this bill and more particularly section 387B subsection (5) gives to the new commission the discretion to decide whether or not it will receive submissions and conduct hearings on costing procedures.

The province of Saskatchewan is of the opinion that the costing process is so vital to the successful operation of the new transportation system that there should be no doubt about the duty of the commission to hold hearings. Here again, we suggest that the holding of hearings on costing procedures be mandatory rather than permissive.

I come now to the question of maximum rate control, which I understand has been previously discussed before this Committee. On this issue the province of Saskatchewan has no complaint to make about the revised definition of captive shippers as it appears in the bill. Its position on the much discussed formula can be summarized very briefly. As the brief indicates on page 16, the province of Saskatchewan has concluded that in the absence of cost data from the railways it is impossible for it to assess the effect of this new formula on actual rates which will be paid by shippers. The specific views of the province are recorded on page 17. First of all, the position is restated that if there is to be any resolution of the involved discussion of the maximum rate formula it can only be brought about by the disclosure of sufficient data for the parties in the discussion to make a proper assessment and judgment.

Regardless of the formula adopted, the province of Saskatchewan feels that this Committee would wish to assure itself that the small class of shippers now covered by the class rates will not be exposed to substantial increases in rates. Moreover, as the second last paragraph on page 17 indicates, the province of Saskatchewan submits that there is now an identifiable class of shippers, namely those whose rates were reduced in 1959, pursuant to the Freight Rates Reduction Act. These are both class and commodity shippers, and it is the view of the province of Saskatchewan, which it has expressed throughout these discussions, that a means should be found to protect this type of shipper, who has almost by statutory definition been deemed captive, from any undue increase in freight rates.

I think the final view which I am authorized to express on behalf of the province is one with which many of the Committee members would agree. There appear to be good reasons to be dissatisfied with the recommendation of the royal commission as to a maximum rate formula. The province of Saskatchewan believes that its experience in the operation of the formula will show how and to what extent the formula should be revised. It attaches the very greatest importance to subsection 16 of section 336 which now requires the commission some time after five years of the coming into force of the legislation to review the operation of the formula. I was here yesterday and I expressed the view—I do not think people would disagree with it—that if the starting time is five years the finishing time for such review is likely to be eight or more years.

In section 329 of the statute, which deals with the Crowsnest rates, it is provided that the new commission must review these rates within a period of three years. We respectfully suggest that the same form of words should apply to the important maximum rate formula.

There are certain incidental matters dealt with at the end of the brief. The province of Saskatchewan approves and makes no comment on the sections dealing with passenger services and general subsidies. As I have already indicated, the province generally supports the expression of government policy with regard to the abandonment of branch lines.

At page 21 the submission points out that the total mileage of unprotected branch lines in the province of Saskatchewan is in excess of 1,000 miles. It is understandable, therefore, why the government of the province of Saskatchewan is concerned about the procedure which will be followed in the disposition of this very substantial railway mileage. It is the hope of the province that the government of Canada will use the powers conferred upon it by this bill, more particularly in section 314(h), to direct that all pending applications for abandonment under Section 168 of the Railway Act shall be governed by the principles and rules established for abandonment applications under the new legislation. What the province fears is that the narrow approach which is now dictated by the Railway Act will be harmful to the province and to its economy but it believes that the disposition of these cases under the principles established in the new bill will provide a satisfactory result. All of the recommendations of the province are summarized on pages 22 to 25, but I do not think that you would wish me to detain you further with these opening remarks.

The CHAIRMAN: Thank you very much, Mr. Blair. Mr. Andras?

Mr. ANDRAS: On pages 22 and 23 of your summary of comments, appear item 4 and item 5. I get the impression you understand that cost data would not be made available to the national transportation commission. You say that no useful conclusion can be achieved unless and until the railways agree to provide adequate cost data. That is the key phrase there. And in the item 5 you say there seems to be no reason why the railways could not make cost data available to the commission on a confidential basis. Do I take from that that it is your understanding that this is not provided for?

Mr. BLAIR: No, I do not think that we are altogether clear on that, Mr. Andras. Section 387C of the new bill, which deals with the disposition of data supplied to the commission by railways in connection with the total costing process, states that this must be kept confidential. But I think that that whole group of sections starting at 387 makes it plain that for the purpose of establishing the guidelines for railway costing, the railways must submit their costs to the commission, but those costs must be kept confidential.

Mr. ANDRAS: Just to confirm that, perhaps the Minister can advise us. My understanding was that in such cases cost data would be given to the national transport commission for the calculation of maximum rates, and so on.

Mr. PICKERSGILL: Well, actually, the commission would not simply accept the railway's own figures. They would use their own figures in determining the rates they want; they have the right to exact from the railways any information they want for this purpose and, on a confidential basis, for any other purpose.

Mr. BLAIR: It is our understanding, Mr. Minister, that if any shipper actually brings a case before the commission for the fixing of a rate, the cost



data relevant to that application will be disclosed, not only to the commission, but to the shipper.

Mr. PICKERSGILL: I would certainly think there could be no doubt whatever that the cost data accepted by the commission for that purpose would be disclosed. I would really like advice of counsel before I said whether the figures that the railways might submit in the preparation of their case would necessarily be disclosed. I could read the bill and venture an opinion myself, but I have learned through long experience that this is sometimes unwise for unlearned people.

There is no question that the commission would have to determine what the variable costs were, and the determination by the commission would have to be made public.

The CHAIRMAN: Mr. Reid?

Mr. REID: In discussing the last point you raised, Mr. Blair, I would like to ask the Minister if the outstanding applications for abandonment of branch lines will, in fact, be considered by the new commission—assuming that the bill passes—under its new criteria rather than the criteria under the Railway Act itself.

Mr. PICKERSGILL: My feeling would be that they would be. There are provisions all through the bill for bringing certain parts of it into operation by proclamation at different times, and so on. I can see no very good reason why there should be any delay in bringing those provisions into effect.

As you know, the railways have agreed to withdraw all their existing applications for the guaranteed lines that are covered by the map on the day on which the bill passes, and to up date their information on the other lines if they want to apply for abandonment of the other lines. They are not compelled to apply even for the non-guaranteed lines, but I suspect they will. But I see no reason why the new criteria should not apply.

In the case of certain of these lines, if you will look at the map very carefully you will see that, they are little stub ends of lines, and it would not make much difference whether it is the new criterion or the old.

But there are some lines, particularly in Saskatchewan, that are more or less perpendicular to other lines where it would, I think, be preferable to have the new criteria apply. In the law I see no reason why they should not apply.

Mr. REID: The second point I would like to raise, and Mr. Blair brought it up, is the difference between the three year period before the commission goes into a study of the Crownest pass rate, and the five year difference before they start setting the other freight rates. Could you tell me if I am right in assuming that, because the Crownest pass rates are going to remain the same, it is not really necessary for the commission to have a period of time before doing its cost analysis, whereas the railways will now be operating under completely new circumstances and a certain period of time is required to build up the necessary data.

Mr. PICKERSGILL: It might be as much as 18 months before any maximum rate is established. Nobody is going to declare himself a captive shipper and ask for a maximum rate until he has had a shot at the railway first.

The railways themselves, I would guess—this is a sheer guess, I have never asked—would prefer not to have maximum rates set if they could strike a bargain with the shipper. My only hesitation in saying right off the cuff that I would accept the three years suggested by the government of Saskatchewan is perhaps there would not be much to review. That would be the only fear.

But we are looking at that point very seriously, and my own disposition is to make it as short as possible. I think that in view of the misgivings that have been expressed about the effect of this maximum rate, the sooner we can have a meaningful review of it the better. If it is not affording protection, as has been suggested by one or two members of the Committee, and there are shippers who ought to be protected, then, I think, the sooner we know about it the better.

However, I have the impression, in relation to some things we discussed earlier today, that some refinements that may be possible in the appeal provisions also referred to by Mr. Blair may be more important in this field than the maximum rate itself.

Mr. REID: Now, the other point is the bridge subsidy which concerns the area I represent in northwestern Ontario. This is a subsidy which has nothing to with our area—

Mr. PICKERSGILL: Just pretend that your area does not exist and I should think that you would be awfully glad to see it disappear.

Mr. REID: I just wanted to clear it up. Now, one last question to Mr. Blair. Would you say, Mr. Blair, that the province of Saskatchewan is satisfied with the bill as it is presently drafted with the minor changes which are to be made, of course.

Mr. BLAIR: Well, subject to the forceful comment which I hope I made on clause 317, the antidiscrimination position, and subject, also, to the extreme reservation that the province has about the operation of the maximum rate formula, I think the province is very well pleased with the changes which have otherwise been made in this legislation.

Mr. SOUTHAM: Mr. Chairman, I would like to congratulate Mr. Blair on this very adequate brief. I would also like to say that he depicts in general the even temperament, I think, of the people of Saskatchewan when he presented this brief. He eulogizes the good points and is very bland about the criticisms. I was interested in the reference on page eight to permissible rather than mandatory aspects of clause 314. Now, I am thinking of rail line abandonment going back to what Mr. Pickersgill was saying a few minutes ago. I feel, in areas where we do have segments of the railroad lines being considered for abandonment, that we should have the same opportunity as we did under the present legislation, namely to have a hearing. In other words, make this mandatory rather than permissible. I think this would satisfy the people in the general areas. I do not have to tell Mr. Blair or you people that I have heard plenty of comment about this.

Mr. PICKERSGILL: I would like to interject, if I may. I think I could express my view even a little more forcefully than I did when the pools were before you. I said at that time that I had been very much impressed by what they said. The impression has deepened since I have thought more about the subject. I would go as far as to say that I think if every interested party requests a

hearing it should be mandatory. I am not sure that we should say the commission has to have a hearing. If it has to go through the formality of a hearing, then no one objects at all. In one or two of these cases that may well turn out to be.

Mr. SOUTHAM: I am glad to hear the Minister say that and I was just wondering what Mr. Blair's comments were in this respect.

Mr. BLAIR: I certainly agree, Mr. Southam. This is one of the suggestions that we have made and cannot make too forcefully. It is a very serious matter to have a line abandoned, and the government of Saskatchewan feels that where anybody objects or wishes to comment on the effects of the abandonment they should have the unquestionable right to be heard.

Mr. SOUTHAM: Mr. Blair, do you in your opinion think that we have captive shippers and particularly in Saskatchewan?

Mr. BLAIR: Oh, yes.

Mr. SOUTHAM: Would you be prepared to suggest the coal shippers from Bienfait and Estevan to Winnipeg and the head of the lakes might be in that category?

Mr. BLAIR: Well, Mr. Southam, they certainly are. I know you and I have had many discussions about them in the past. They are entirely dependent upon the railways to take their product to market.

Mr. SOUTHAM: Well, you have heard naturally the discussions and, no doubt, the testimony of the various witnesses, particularly the railroads, stating that they do not feel we have captive shippers. I think we can pretty well agree that there are captive shippers. I am referring to Saskatchewan as an example and, in particular, to the coal shippers from Bienfait and Estevan to Winnipeg, Brandon and the head of the lakes—the lignite coal industry. It has to ship its complete production over the C.P.R., which is the only line available.

Now, on page 11, I believe, you refer at the bottom of the page to an interpretation of exactly what *prima facie* and public interest means are required and perhaps it should be enlarged upon in the legislation. Mr. Blair, with your wide experience would you like to give the Committee what your interpretation or suggestion would be along this line.

Mr. BLAIR: Well, I must say speaking personally that I never like to see the words "*prima facie*." This creates the impression that you must make an absolutely unanswerable case in order to enter the door.

The CHAIRMAN: You can tell Mr. Blair has not been doing much criminal work in his practice.

Mr. BLAIR: I think the judges of our courts from time to time when they have referred to words in the statutes such as "public interest" or "public policy" have indicated that these are slippery words; they are hard to be determined, to be defined, and hard to apply. There may be an element of public interest to be determined or to be demonstrated where it might be shown that a whole region is prejudicially affected by a given rate, but in the view I take of it this does not really meet the needs of an important shipper or an important industry which is prejudicially affected.



Now, I have always followed the practice of not trying to redraft legislation, because this is an extremely difficult thing to do. But I should think that if the words "public interest" are retained at all in this section they should be given a much less important place than it has now where it really becomes the sole and only test whether or not a shipper can claim relief.

Mr. SOUTHAM: Thank you, Mr. Blair. I have been quite pleased with the receptive attitude of our hon. Minister with respect to some of these suggestions. I think as we examine witnesses like yourself and others if we can obtain helpful suggestions from them as well as practical criticism, in time we can incorporate them into this legislation when it is studied further and it will make a better bill.

Mr. BLAIR: I would think in more detailed response to your question, Mr. Southam, that the criteria which should govern the judgment of the commission in the application of this section might be better stated somewhat as follows: to consider the harmful effects, or the discriminatory effects, of any such rate in relation to the interest of the shipper or the public interest or any other matters which the commission thinks important.

Mr. PASCOE: Mr. Chairman, if I could just follow up a little bit further the branch line abandonment, on page 5 the brief suggests an area approach with regard to studying the lines which might be abandoned. Just how far would the area approach be. Would you outline a little bit further in that regard? I have a map here which shows the lines which might be abandoned.

Mr. BLAIR: Well, I think, Mr. Pascoe, without going into details of any particular area, you can envisage a section of the province which now has highways and now has a number of branch lines. It is our submission that if there are applications for abandonment, they should not be considered solely in relation to the operation of a single branch line but rather with the consequences of abandonment of branch lines in the whole of that area. This envisages that the commission might, for example, decide that it was preferable to connect the lines of two competing railways in order to save money and to make the movement more efficient.

Mr. PASCOE: That is the point I wanted to bring out. Do you think your brief is in favour of that.

Mr. BLAIR: Oh, very much so.

Mr. PASCOE: In the brief of the National Farmers' Union, I think, it is perhaps, along pretty well the same line as yours, the suggestion is that parliament consider compensation payments on losses which will be suffered by holders of rail-tied investments on abandoned branch lines. Rail-tied investments, I suppose, means elevators and probably stores and other business places. Would your brief suggest that they have compensation?

Mr. BLAIR: We have not made a specific proposal in that regard which would envisage the government of Canada, as it were, compensating people other than the railways. Our proposal, I think, is broader than that Mr. Pascoe, and it is that if, for example, the commission were to find that substantial business and other investments were going to be prejudicially affected by the abandonment of the line, the more preferable course would be not to abandon

the line but to keep it in operation. This is part of the area approach and also part of the approach of concentrating attention on what are called the economic and social consequences of abandonment.

Mr. PASCOE: That is what I was trying to bring out. Do you think the Saskatchewan government would be more concerned with keeping a line than abandoning even the lines that are not on the frozen list up, until 1975.

Mr. BLAIR: Well certainly its position is that no line should be abandoned if the consequences should be such that a lot of people would be harmfully affected.

Mr. PASCOE: On page 4 you state, regarding the national objective to be achieved, "and so maintain a close watch over vital regional interest". Do you see any place where a regional interest might be in conflict with that national objective?

Mr. BLAIR: I think the people in Saskatchewan who prepared the brief just realize that it is a long way from Saskatchewan to Ottawa, and there may be a tendency for problems to be viewed in a different light here from they would be in our home province. What we are very anxious to have is some mechanism, either by way of membership in the commission, or an advisory council which would bring to bear the regional interest which might through pure inadvertence be overlooked in a decision made by a commission located here.

Mr. PASCOE: Mr. Chairman, that leads up to my next question with regard to the phasing out of the bridge subsidy as mentioned on page 12. The brief says the bridge subsidy is important to certain prairie shippers and yet the government says they are in favour of phasing this out. Do you see how phasing out the bridge subsidy which now is \$7 million a year affects prairie shippers, or would affect them?

Mr. BLAIR: I think one group of shippers affected are ones which you know personally, Mr. Pascoe, the product manufactured at Chaplin, Saskatchewan. What is the product?

Mr. PASCOE: Sodium sulphate.

Mr. BLAIR: This is a product which is shipped in bulk to eastern Canada and it benefits extensively from the bridge subsidy. The very fact of the bridge subsidy enables that product to be put into the eastern markets in a competitive fashion. Ideally, I think, the government of Saskatchewan would like to see the bridge subsidy continued in a perpetuity but if it is reduced by stages over a period of three years it is felt that generally speaking shippers will be able to adjust themselves.

Mr. PASCOE: And raise prices to eastern purchasers?

Mr. BLAIR: I do not think it would ever be possible for them to raise prices because the market prices of a lot of these commodities such as sodium sulphate are established here and the full impact of increased transportation costs would have to be borne by the producers.

Mr. PASCOE: That is the point I was trying to bring out. I think that is pretty nearly all the questions I have except to say I agree with the brief in regard to standing costing procedures and we are attacking that in another way.

Mr. CANTELON: I believe I am paraphrasing what you said when I say you said something like this "It was impossible to assess the effect of the rate formula as defined for captive shippers without disclosure of sufficient data for adequate discussion." Am I correct?

Mr. BLAIR: That is right.

Mr. CANTELON: Then, am I right in thinking the government of Saskatchewan is quite satisfied to wait until the commission gets the figures. That probably will be three years, in order to have any such problems satisfactorily resolved?

Mr. BLAIR: The government of Saskatchewan joined with the governments of the other prairie provinces and the Atlantic provinces in making very strong representations to the government of Canada requesting the disclosure of cost data. In an ideal situation it would be certainly preferable to have that cost data available now. The government of Saskatchewan understands the reasons why that cost data cannot be made available and therefore it is prepared to let the legislation be tried, but, subject to the comment I made earlier that the review of this formula should be undertaken earlier rather than later.

Mr. CANTELON: I believe you said something to the effect that there was a five year time limit and Saskatchewan is suggesting it be three years instead of five?

Mr. BLAIR: That is right.

Mr. CANTELON: I will certainly go along with you on that, if we cannot get the information. This disturbed some of us because we know the freight committee, or whatever you call it, was able to get information from retailers as to exactly what their costs are and yet we cannot get it from the railway. We cannot see why there is this discrimination.

Mr. PASCOE: Just one question I forgot to ask: Mr. Blair, you said this brief was prepared by the government of Saskatchewan; the Saskatchewan Association of Rural Municipalities; the Saskatchewan Association of Urban Municipalities and the Saskatchewan Federation of Agriculture. This pretty well then represents their views does it.

Mr. BLAIR: Yes, it does.

Mr. PASCOE: Quite fully?

The CHAIRMAN: Well it says on the first page—

Mr. PASCOE: Yes, I see that; I just wanted to put it on record.

The CHAIRMAN: I want to take this opportunity to thank Mr. Blair for being with us for a second day this week and giving again a very precise brief and a precise comment. The short questioning shows, again, that the committee pretty well understood your representations Mr. Blair. The Committee will stand adjourned until tomorrow afternoon at 3.30 for a very short brief from Mr. Gil Molgat the leader of the opposition in Manitoba.



APPENDIX A-21  
SUBMISSION  
of the  
CANADIAN INDUSTRIAL TRAFFIC LEAGUE  
to the  
PARLIAMENTARY COMMITTEE  
on the contents of  
BILL C-231 (1966)

Mr. Chairman and Members of the Standing Committee on Transport and Communications.

The Canadian Industrial Traffic League (Inc.) is a national organization expressly serving the transportation interests of its members. We have approximately 1200 members across Canada.

The efficient and economical transportation of goods and persons on behalf of their firms is the main responsibility of traffic management personnel. This Submission contains the views and opinions of those who directly pay the freight charges to the Canadian carriers on behalf of their companies.

This Submission by the League is being made on the understanding that nothing contained herein shall be deemed to abridge the rights of the League's individual member companies to make other or separate submissions elaborating hereon or differing herefrom the views expressed in this submission.

Since 1916 it has been the endeavour of the League at all times to co-operate with the Federal and Provincial Regulatory Bodies, Royal Commissions, Transportation Companies, and other organizations interested in the promotion, conservation, and protection of a sound national transportation industry.

Our Submission with respect to the contents of Bill C-231 (1966) will follow the same order as shown in the said Bill.

*Clause 3. Par. (d)*

This paragraph, under its present wording would include any work or undertaking for the transport of passengers or goods by motor vehicle and, of course, would cover private operators of motor vehicles carrying their own goods. We are of the opinion that it is intention of the Act to regulate only carriers of passengers or goods "for hire or reward". Heretofore the regulations envisaged in this Act have not applied to private operators carrying their own goods. Such private operators, were and are subject to regulations governing public safety, license plate fees etc.

Furthermore, it seems apparent from Clauses 30-35 of Bill C-231 that their application is intended to apply to carriers serving "public convenience and necessity" and not to private carriers.

We recommend, therefore, that the words "for hire or reward" be added to par. (d) of Clause 3.

*Clause 44. Section 317 (1)*

This clause repeals the sections of the Railway Act which prohibit undue preference and unjust discrimination. We are generally in accord with the removal of restraints which hamper the railways in meeting competition, but, we think the proposed amendments go much further than enabling the railways to meet competition. This action would permit a situation which could be seriously detrimental to some shippers if the railways were left free to publish any rate or condition irrespective of their effect on certain industries or localities. Our members are greatly concerned that the railways may be permitted, under the law, to possibly practice unjust discrimination without recourse of appeal. The proposed S.317 (1) does not, in our opinion, provide a satisfactory safeguard for a shipper or locality who may suffer unjust treatment by the railways.

Under the proposed new S.317 (1) it is necessary to make a "prima facie" case that the public interest has been prejudicially affected before the Commission may grant leave to appeal. The critical question here is, does unjust discrimination against a shipper or locality make a "prima facie" case of "prejudicially affecting the public interest"?

We recommend that S.317 (1) in clause 44 be amended to give leave of appeal to the Commission to a shipper or locality—or that "public interest" as used in this subsection be defined to include the interest of shippers and/or localities.

*Clause 45 (9) S. 319 (9)*

This new subsection states that where a railway company provides facilities for the transportation by rail of motor vehicles or trailers operated by any company under its control, it shall offer to all companies operating motor vehicles or trailers for hire or reward, similar facilities at the same rates and on the same terms as those operated by the company under its control.

This subsection does not make any provision for the carriage of similar equipment owned and/or operated by a private company. The development of the motor vehicle trailer and containers capable of interchange between different modes of transport is now a recognized technique in transportation. Due to its flexibility and economy it is also being used by private carriers. We believe that this equipment when used by the private carrier or shipper, should be carried by the railways on the same basis as similar equipment for the "for hire" carriers. We recommend that subsection (9) of Section 319 as covered by Clause 45 be amended accordingly.

*Clause 52 S. 333 (2)*

We believe the 30 days notice on increases in rates should be retained. In most industries in Canada price lists are effective for 30 days or longer, and 10 days does not allow sufficient time for price adjustments due to freight rate increases. We believe that 30 days notice for increases in rates is reasonable and recommend that this subsection be amended accordingly.

*Clause 53 S. 336*

This Section covers the matter of rates on so-called "Captive" traffic. We respectfully submit that the statutory rates as covered by subsections (2), (3), and 5 (b) should not be enacted.

Our reasons are as follows:—

1. The bases used in ss (2) and 3(c), also the formulae in 5 (b) are too uncertain and rigid, and do not take into consideration some of the most important factors which have a bearing on freight rates such as type of commodity, density, value, loading characteristics etc.
2. These bases and formulae cannot be changed except by Act of Parliament. We believe it would be most undesirable to have to pass an Act of Parliament in order to make necessary changes in freight rates.
3. We believe the fixing of freight rates—whether on “captive” traffic or otherwise requires the application of judgment, after all relevant factors have been investigated and considered.

We, therefore, recommend that Section 336 be amended as follows:—

1. Subsection (2) be ended at the 32nd. line of page 42 after the words “fix a rate”.
2. Subsection (3)—delete paragraph (c) of page 43.
3. Subsection (5)—delete paragraph (b).

By making the above amendments, this would leave the matter of fixing rates on so-called “Captive” traffic in the hands of the Canadian Transport Commission which will have all the data and facilities to consider and assess all relevant factors and render a proper judgment in the fixing of rates for this traffic.

Respectfully submitted,

Canadian Industrial Traffic League (Inc.)

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## TRANSPORTATION POLICY FOR CANADA

### *Introductory Statement*

The Canadian Industrial Traffic League Inc., a National organization of industrial and Commercial managers of traffic and distribution, is dedicated to and concerned with the efficient and sound economical transport and distribution of goods and persons. The Policy is based on general principles and expresses the collective convictions of the members of the League. It has been prepared for the information and use of the membership at large, without prejudice to the interest of any individual member. The League endeavours to act consistently but will not hesitate, when necessary, to add to, modify or delete statements of policy in the light of changes in law or circumstances of transportation.

### *General Statement of Policy*

The League supports all movements, actions, engineering and technical advances that contribute to providing efficient transportation facilities and services adequate for the general economy of the Nation. It supports: 1) competition among all types of carriers so that the advantages of each may be



achieved 2) rates to be free of regulatory control save for captive traffic and 3) tariffs to be made available by all common carriers. Where there is no alternative to providing transportation assistance except through statutory rates or charges involving subventions, the cost should be borne by the national and/or provincial treasury.

#### *Government Ownership vs Private Enterprise*

The League firmly believes in the principle of free, private enterprise in the transportation industry as the best method of obtaining efficient and progressive transportation.

Government ownership of transportation equipment and facilities should be limited to those instances relating to national development and pioneering where private enterprise cannot serve because of high initial and development costs.

#### *Free Enterprise and Competition*

The League believes that the free enterprise system is the most effective way to bring about increased productivity, rapid technical advances and the greatest opportunity for the greatest number of people. This system must recognize the right to fail, otherwise it is subject to undesirable restraints.

#### *Rate Making and Publication*

Shippers and carriers should be free to negotiate rates, terms and conditions subject to the observance of regulations such as those respecting registration, safety and dangerous goods. All tariffs of rates, terms and conditions for common carriage should be made available.

#### *Rate Control*

Except for captive traffic, the regulation of rates by a government agency should be discouraged.

#### *Statutory Rates or Charges Embracing Subventions*

When economic, geographic or other conditions exist in certain sections of Canada, which in the national or provincial interest require special treatment, the cost of transportation or burden thereof should not be placed on the carriers and thus passed on to users or buyers of transportation services. The difference in cost or charges between the determined, normal, reasonable rates and the statutory or subvention rates or charges should be borne by the national and or provincial treasury, in such a fashion as not to distort the basic freight structure.

#### *Charges for Government Facilities*

Whenever practicable, the costs of building, operating and maintaining any transportation facility provided by government should be met by fair and equitable charges paid by those benefiting from such facilities, except as provided under the previous item of this policy.

#### *Interprovincial and International Regulations*

The League believes that the federal government should regulate interprovincial and international common carriers in the areas of public safety, uniform documentation and liability.

*Complete Transportation service by Carriers*

The League believes that any carrier principally engaged in a given type of transportation service should be free to engage in any or all other types of transportation for the purpose of providing an integrated transportation service.

*Private Carriage*

The League upholds the right and freedom of any enterprise to operate its own transportation facilities, subject to federal and provincial laws or regulations respecting registration, safety and dangerous goods.

*Right of Appeal*

There should be available to shippers Appeal Boards, such as the Board of Transport Commissioners for Canada, for the hearing and arbitration of grievances.

AS ADOPTED BY THE 49TH ANNUAL GENERAL MEETING MONTREAL,  
QUEBEC-FEBRUARY 23RD, 1965.

**APPENDIX A-22**

Submission by  
THE GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN  
to  
THE HOUSE OF COMMONS STANDING COMMITTEE  
ON TRANSPORT AND COMMUNICATIONS  
on matters to be considered in Bill C-231

**INTRODUCTION**

Bill C-231 replaces original Bill C-120, and like Bill C-120 originated as the result of recommendations of the report of the Royal Commission on Transportation.

Bill C-120 was defined as:

"An Act to amend the Railway Act, the Transport Act and the Canadian National Railways Act, and to repeal the Canadian National-Canadian Pacific Act."

Its purpose was:

"To give effect generally to these recommendations so far as the Railway Act is the appropriate place to do so."

As a comparison, the new Bill C-231 is defined as:

"An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions."

Bill C-231 is mainly distinguishable from the original Bill in that it establishes the ground work for:

"A national transportation policy, to spell out the objectives of that policy and provide the necessary statutory provisions for the achievement of these objectives."

The legislation contained in Bill C-231 is a vast improvement over that incorporated in the original Bill C-120, and stems largely from recommendations by the provinces and organizations submitted to the federal authorities. The federal authorities recognizing that there were short-comings in the original Bill, invited criticism from governments and provincial organizations and were quite receptive to representations made to them. This is evidenced in the contents of the new legislation where many of the suggested amendments have been incorporated.

**SASKATCHEWAN'S VIEWS ON BILLS C-120 AND C-231**

The following submission outlines the main issues commented on in a policy statement of the Government of Saskatchewan on original Bill C-120 which was submitted to the Government of Canada in February, 1965, and compares the relevant legislation contained in Bill C-120, with that of the new Bill C-231.



1. Rail rationalization and the abandonment of uneconomic branch lines.
2. Crows Nest Pass and associated rates.
3. Unjust discrimination and undue preference.
4. The bridge subsidy.
5. Costing procedures.
6. Maximum rate control.

In addition to the above issues, the introduction of a National Transportation Policy and its objectives, which Saskatchewan feels is a first important move towards achieving major goals in Canada's broadly dispersed transportation network, is commented on first.

*National Transportation Commission (Sections 2 to 20, Bill C-231)*

Bill C-231 is referred to as the National Transportation Act, and provides for the establishment of a National Transportation Commission which will replace the three existing agencies of:

1. Board of Transport Commissioners.
2. The Air Transport Board.
3. The Canadian Maritime Commission.

Provision is made for staff members on these commissions, with an authorized membership of thirteen, to be transferred to the new commission. The addition of four new members will bring the total membership up to seventeen. Additional agencies to this commission are to include extra-provincial commodity pipe lines, and extra-provincial motor vehicle transport. It is proposed that the new commission will operate through a series of sub-commissions or committees specializing in individual types of transport. In addition, special committees are to be provided for to deal specifically with road, air, rail, marine and pipe line transportation activities.

Saskatchewan is vitally concerned with the composition of the membership on this commission, particularly with reference to matters dealing with railway problems. Saskatchewan is concerned in the manner in which many of the objectives are to be achieved. For instance, how will the national objectives be achieved and still maintain a close watch over vital regional interests? One way might be to establish an advisory committee composed of membership from provincial organizations which would act through the provincial government to provide a vital avenue of information to the federal authorities or the commission on the extent of matters vital to regional development. One way of facilitating this, as outlined by Premier Thatcher in Saskatchewan's policy statement of 1965, would be through the establishment of a regional office by the commission, preferably in Regina.

It is essential, however, that in view of full consideration of regional interests, the overall national interest be the predominant major objective. This can best be accomplished through an informed commission membership fully competent to appraise the major issues and having confidence of all parties concerned.

The Government of Saskatchewan, therefore, requests that the means of achievement of the national interest, with due consideration of regional interests, be spelled out in the Act.

*Rail Rationalization and the Abandonment of Uneconomic Branch Lines*  
(Section 314A to 314H, Bill C-231)

In the policy statement submitted by the Province of Saskatchewan, February, 1965, it was emphasized that rail rationalization was not merely the abandonment of uneconomic branch lines, but the more efficient utilization of existing rail plant. It would appear that Bill C-231 utilizes this kind of approach. In general, Bill C-231 emphasizes the concept of rationalization in examining the whole question of uneconomic branch lines. Also, the area approach method of studying lines is introduced along with considerations of public interest and the provision by the new commission of broader powers to make general recommendations on the whole question of making necessary adjustments with the least social upheaval.

Briefly, the following items illustrate what Bill C-120 failed to provide in dealing with the question of rail abandonment. In general, these shortcomings have been recognized in the new Bill.

1. An authority with over-riding power to act independently of outside influence and responsible only to parliament. Bill C-120 placed the authority in a position of secondary importance.
2. Bill C-120 failed to place major emphasis on social and economic consequences of abandonment. In its original form, the only criteria for abandonment were railway operating results. For example, if the railway showed an operating deficit, the line was to be classified as uneconomic and would be automatically abandoned, the timing only of which was to be determined by the authority.
3. No abandonment should take place without a hearing unless agreed to by all parties. Under Bill C-120 a hearing may have been held at the discretion of the authority. Hearings were permissive rather than mandatory.
4. A regional approach to abandonment and rationalization requires that all lines be studied. Bill C-120 required a study of only those lines that the railway submitted for abandonment and that each line was to be considered in isolation.
5. Bill C-120 made no provision for the initial transitional period with respect to community losses and costs resulting from loss of rail service. Reference was made to public interest only when fixing the date of abandonment of a line.
6. Bill C-120 made no provision for re-assessing railway costs following complete rationalization of plant. Railway costs under the present operating system would not be a fair assessment of savings consequent on abandonment.

As compared with the above shortcomings inherent in Bill C-120, the new Bill spells out, in detail, matters to be considered by the commission when studying the question of abandoning uneconomic branch lines as follows:

- "1. the actual losses that are incurred in the operation of the branch line;
2. the alternative transportation facilities available or likely to be available to the area served by the branch line;
3. the period of time reasonably required for the purpose of adjusting any facilities, wholly or in part dependent on the services provided by the branch line, with the least disruption to the economy of the area served by the line;
4. the probable effect on other lines or other carriers of the abandonment of the operation of the branch line or the abandonment of the operation of any segments of the branch line at different dates;
5. the economic effects of the abandonment of the operation of the branch line on the communities and areas served by the branch line;
6. the feasibility of maintaining the branch line or any segment thereof as an operating line by changes in the method of operation or by interconnection with other lines of the company;
7. the feasibility of maintaining the branch line or any segment thereof as an operating line either jointly with or as part of the system of another railway company by the sale or lease of the line or segments thereof to another railway company or by the exchange of operating or running rights between companies or otherwise, including where necessary, the construction of connecting lines with the lines of other companies, and
8. the probable future transportation needs of the area served by the branch line."

In considering the cause and the effect of rationalization Section 314C (1) appears to indicate that public hearings for users are *permissible* rather than *mandatory*.

In view of the obvious improvement of Bill C-231 over Bill C-120 on the question of rail rationalization, the new legislation would gain valuable confidence from users and other interested groups by insisting on public hearings.

This is not to say that public hearings should be held for each line proposed for abandonment. Adequate safeguards would be provided if one public hearing was held on each *area* examined at which views would be heard from users whether either directly or indirectly affected.

Similarly, the question of public hearings is critical in the determination of principles, approaches, techniques or procedures of costing branch line operations. Saskatchewan continues to request that a careful review be made of the procedures used by the railway in determining the operating loss of a branch line. This would have reference to division of costs between on-line and off-line portions of movements, and other costing and operational considerations:

Finally, it would appear that Bill C-231 is an improvement over Bill C-120 inasmuch as the special rationalization agency or authority which was referred



to in Bill C-120 has been dropped in favour of a special committee within the new national commission. This suggests that rail lines will not be examined in isolation with other transportation media, but that all regional effects of rail abandonment on other transportation media will be considered in arriving at decisions.

*Crows Nest Pass and Associated Rates (Sections 328 to 329A, Bill C-231)*

The Government of Saskatchewan, in its policy statement of February, 1965, strongly supported the principle of maintaining export grain rates at the current level as an instrument of national policy under the control of Parliament. Bill C-120 authorized the Minister of Finance to compensate the railways for any shortfall in the variable costs of moving western grain to export positions, plus a fixed contribution to overhead.

In this regard, the Government of Saskatchewan was not satisfied that there was an actual out-of-pocket loss on the movement of export grain, and recommended that prior to any decision to pay the railways a fixed sum of money, a complete review of costs of moving export grain be carried out. If, after these actual costs had been determined and, if in the event there was an actual out-of-pocket loss on the movement of export grain, the Government of Saskatchewan would support a policy of subsidizing the railways to compensate them for such loss.

The Government of Saskatchewan, however, opposed, without reservation, any payment by the federal government towards constant costs of moving western grain to export positions, and consequently recommended in their policy statement that any reference to constant costs on export grain movement be deleted from the legislation contained in Bill C-120.

Bill C-231 guarantees the maintenance of the Crows Nest rates and related rates on a statutory basis. It makes no reference to immediate subsidy payments on the movement of export grain. The Bill, however, states that the commission shall inquire, within three years, into the revenues and costs of moving export grain and grain products at which time the commission will then be in a position to recommend assistance to the railways if losses are proven. The Government of Saskatchewan considers that this disposition of this vital question is sound and acceptable.

The "At and East" rates on the rail movement of export grain to Eastern ports from inland lake points, are to be maintained at the level applicable as of November 30, 1960. Only after it is proven that these rates are non-compensatory will a payment be made to the railways on the difference between revenues received from the movement and the revenues the railways would have received had the rates been compensatory. This policy Saskatchewan supports.

*Unjust Discrimination and Undue Preference (Section 317, Bill C-231)*

Except for telephone, telegraph and passenger rates, Bill C-120 removed from the Railway Act all reference to unjust discrimination, undue preference and just and reasonable rates. Saskatchewan disagreed with this. The provincial government recommended that a route of appeal to the Board of Transport Commissioners should be maintained in the Railway Act so that any shipper whether in a group or individually would have access to a common market free of any form of discrimination.

In this regard the Government of Saskatchewan recommended that Sections 317 and 319 be retained in the Railway Act. The New Act makes provision in section 317 that:

"Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the public interest in respect of tolls or conditions of carriage of traffic, may apply to the Commission for leave to appeal the act, omission or result and the Commission, if it is satisfied that a *prima facie* case has been made, may grant leave to appeal and may make such investigation of the act, omission or result as in its opinion may be warranted."

As the above quote states, there is protection relating to discrimination in rate making. An interpretation of exactly what *prima facie* and "public interest" mean is required and perhaps should be enlarged upon in the Act. Saskatchewan feels that the road to appeal perhaps should not be thrown wide open to all those who may desire to take this action. This would result in the inevitable flooding of the commission by complaints—some perhaps unjustified. On the other hand, however, the road to appeal should not be so restricted as to prohibit those who have a genuine need for appeal. Saskatchewan feels that more interpretation should be provided on the precise meaning of Section 317 (1), and that an assurance should be given in this section that any *bona fide* claim against harmful discrimination can be brought before the commission.

#### *The Bridge Subsidy (Sections 468 and 468A, Bill C-231)*

Bill C-120 recommended immediate removal of the bridge subsidy. In its policy statement of February, 1965, however, the Government of Saskatchewan, recommended the retention of the bridge subsidy. This decision was made in view of the importance of keeping heavy loading minerals, and other heavy loading commodities, competitive in Eastern Canada markets. Subsequently, however, the Government of Saskatchewan was receptive to the federal government's proposal of phasing out the bridge subsidy over a period of three years. The federal government's decision here is based largely on recognition of the fact that the bridge subsidy is important to certain prairie shippers, and is thus willing to have this subsidy phased out over a period of time.

Bill C-231 provides for the repeal of the bridge subsidy over a three year period. Saskatchewan has no quarrel with this, recognizing that conditions have changed in the bridge area of Northern Ontario. More traffic is now generated from this area than was the case in 1951-52 when the bridge subsidy was introduced, thus considerably reducing the need for the subsidy.

#### *Costing Procedures (Sections 387 to 387C, Bill C-231)*

Bill C-120 recognized that the recommendation by the Royal Commission on Transportation revising costing procedures would have to be developed by a regulatory authority. The Government of Saskatchewan reiterated in its 1965 policy statement that it was not satisfied with the grain costing study carried out by the Royal Commission on Transportation; nor was it satisfied with the study carried out by the railways. Saskatchewan strongly supported develop-

ment of new and improved standard costing procedures. These procedures were to be established, in the view of Saskatchewan, not only for the movement of commodities such as export grain but, as the bulk of traffic on prairie branch lines is export grain, would also have direct application in the determination of whether or not a branch line of railway was operating at a loss. Saskatchewan took the view that public hearings by the Board of Transport Commissioners to establish the fundamental principles, or procedures of costing, should be held at which all interested parties would be heard.

Bill C-231 provides for determination of costing procedures by the new commission, after which the commission *may* receive submissions and conduct hearings on these procedures. Saskatchewan, however, holds to the view that when costing procedures are being reviewed all interested groups *must* be given a hearing on this very vital aspect of the legislation.

#### *Maximum Rate Control (Section 336, Bill C-231)*

This phase of the legislation incorporated in Bill C-120 was very contentious and remains contentious in Bill C-231. Maximum rate control was meant to provide protection in the form of a rate ceiling which non-competitive rail traffic could not exceed, and also to allow the railways greater freedom in rate making.

There are two main aspects of this: first, a definition of what comprises non-competitive or captive traffic; and secondly, what comprises a fair contribution to the railways in terms of a fixed minimum weight.

Bill C-120 defined non-competitive or captive traffic as a movement where:

*"There is no alternative practicable route and service by common carrier other than a rail carrier or carriers or combination of rail carriers."*

The term "practicable" was interpreted by Saskatchewan in its policy statement as meaning economic and, therefore, would have to be replaced by the term "economic".

Bill C-120 proposed that maximum rates be based on two hundred and fifty per cent of variable costs at a minimum loading of thirty thousand pounds. Both the definition of captive traffic and the formula for determining what level the maximum rate should be was entirely unsatisfactory to the Government of Saskatchewan.

In its policy statement, Saskatchewan recommended implementation of maximum rate control on the basis of the following:

- (a) "That captive traffic be defined as traffic that cannot make an economic movement by any other carrier; that the word "practicable" in the definition of captive traffic be replaced by the word "economic", to read as follows—*There is no alternative economic route and service...*
- (b) That because cost per 100 pounds decrease with increased loading, a uniform proportional contribution to overhead should be applied to actual variable cost of moving various minimum weights."

Assessing the impact maximum rate control would have on Saskatchewan shippers, Saskatchewan, along with other provincial governments and experts, recognized that there was a need to cost rail operations as they applied to actual



movements in Canada. An attempt was made in the interim to obtain these costs. All efforts, however, failed because meaningful data were not provided by the railways. The provincial experts and consultants concluded that until actual cost data were obtainable, all efforts to solve the problem would be futile.

The federal government authorities, during the interim, were aware of the problem faced by the provinces, and accordingly approached the railways in an effort to persuade them to provide the needed cost data. Subsequently, the railways did provide certain selected data. It was immediately recognized that any relation between the data supplied by the railways and actual costs experienced would be pure conjecture, in that the supporting data associated with actual costs of movements were not available. Because of this, it was concluded that it was impossible to assess the actual effect to the formula in terms of maximum rate levels or to propose alternative formulas which would be more realistic and fair from the standpoint of shippers.

Bill C-231 defines a captive shipper as one:

"for which in respect of goods there is no *alternative, effective and competitive* service by a common carrier other than a rail carrier or carriers or a combination of rail carriers . . ."

Inasmuch as "effective" and "competitive" replace the word "practicable" as used in Bill C-120, Saskatchewan feels that the definition of captive shipper is improved upon. With regard, however, to fixed contributions to overhead based on minimum loading, Bill C-231 shows very little improvement over that contained in Bill C-120. In this instance, the only difference between the two Bills is that the basic minimum of 30,000 pounds in Bill C-120 allowed slight reductions in cost to the shipper in blocks of 10,000 pounds upwards, whereas Bill C-231 modifies the original proposal by employing blocks of 20,000 pounds and up. As a consequence, the benefits of heavier loading may be more difficult for the captive shipper to achieve. It is quite probable that most shippers who would qualify under the captive status would lie between the 30,000 pounds and 50,000 pounds minimum weights. If this is the case, very little protection, if any, would be forthcoming to the captive shipper under Bill C-231.

Saskatchewan takes the unalterable stand that adequate cost data must be made available by the railways to the proper authorities, on a confidential basis. Otherwise very little value will be gained in proceeding towards resolving the problem of maximum rate control.

Particularly will this be necessary in the case of shippers now covered by class rates. With the repeal of these rates, some mechanism must be constructed which will ensure fair treatment for former class-rate shippers (see Section 332 of the Railway Act).

Saskatchewan further recommends that provision be made to identify those shippers, particularly those in the West who are handicapped by distance, and who now qualify under the Freight Rate Reduction Act. Presumably, these shippers will require certain protection.

Saskatchewan would be desirous of incorporating the above into the Act on the premise that revisions will be made at a later date to determine whether or not there has been any shifting in railway costs and also to determine what traffic, if any, has been either subtracted from, or added to that qualifying

under the captive definition. It is quite possible traffic now qualifying under the captive status would, in a few years, due to certain technological changes in transportation, cease to be captive.

Since essential cost information is not now available but will become available after the new commission commences operations, the Province of Saskatchewan believes that the proposed maximum rate formula should be reviewed by the commission at the earliest possible time and not more than three years after the coming into force of the Act, rather than the five year period specified in Section 336 (16).

*Other Matters Not Specifically Referred to in the Saskatchewan Policy Statement of February, 1965*

*Passenger Services (Sections 314 I and 314 J, Bill C-231)*

In Bill C-120 provision was made for passenger services to be automatically abandoned on the basis of losses incurred. Bill C-231, however, has modified this stand inasmuch as passenger operation will be dealt with in the same manner as branch lines. The new legislation provides that passenger services will be rationalized on the basis of need and that the new commission may provide for the continuation of passenger service where the public interest requires it. The payment of subsidies to the railway to cover losses experienced by the operation of passenger services, that are deemed necessary for the public good, will be *mandatory* and continued as long as the service is required.

Even though Saskatchewan expressed no official view on this in its policy statement of 1965, the province feels that the new legislation is a vast improvement over that contained in Bill C-120 covering passenger services, and as such, gives its full support.

*General Subsidy (Section 469, Bill C-231)*

In line with the recommendations of the report of the Royal Commission on Transportation, Bill C-120 set out three distinct and separate subsidy funds to be paid as follows:

1. On account of uneconomic branch lines;
2. On a declining scale to offset uneconomic passenger services;
3. Fixed amount paid on account of export rates on grain.

This method of subsidizing the railways was objected to by the Province of Saskatchewan.

Saskatchewan took the view in its policy statement that it opposed any payment by the federal government on account of any one commodity movement or for any fixed purpose such as that related to branch line abandonment and passenger services. Saskatchewan realized that, on the basis of arbitrary assumption, it would be nearly impossible to determine what may be considered a fair contribution to constant cost by any single commodity movement. The Government of Saskatchewan, however, believes that if the Canadian railways require additional revenues periodically, to cover total costs including a fair return on investment, a subsidy to the railways may be necessary.

In this respect, Saskatchewan is entirely in agreement with the legislation contained in Bill C-231, whereby the three special subsidy funds have been

discarded and a single fund has been set up to provide for a transitional subsidy to the railways at the present level of railway subsidy payments commencing in 1968 and declining at a rate of  $12\frac{1}{2}$  per cent of the present subsidy each year. This will provide the commission with greater flexibility in allocating funds to the railways as required.

Bill C-231 makes provision for the new commission to recommend to federal authorities that subsidies be paid to the railways to cover losses on passenger and uneconomic branch line services which the commission feels should not, in the public interest, be abandoned. Saskatchewan is in full agreement with this.

As an added recommendation, Saskatchewan suggests that an annual accounting be made on the dissipation of payments from the general fund to the railways and on the annual progress made by the commission towards rationalizing the railway problem.

#### *Disposition of Unprotected Rail Lines (Sections 314 F to 314 H, Bill C-231)*

Saskatchewan is faced with the prospect of the possible abandonment of slightly over 1,000 miles of unprotected rail lines—that is, rail lines that are not guaranteed to 1975. The question arises, are these lines to be disposed of under the narrow terms of the present legislation (Section 168 of the Railway Act) governing the abandonment of uneconomic rail lines or will procedures under the new legislation (Bill C-231) presently before the House apply?

While it might not be practical to consider these abandonment proposals within the complete procedural framework of Bill C-231 only the most compelling reasons should justify disposal under the present Section 168. In any such cases, Saskatchewan feels that due consideration should be given to the costs of dislocations during the readjustment period that would result from actual abandonment.

In the event that the unprotected lines are considered outside the scope of Bill C-231, Saskatchewan is most concerned as to the manner in which these lines will be considered and strongly recommends that Section 314 H be used to ensure full economic and social considerations apply to those areas served by the unprotected lines as would be the case if these abandonments took place under provisions outlined in the new legislation.

#### SUMMARY

1. With respect to Bill C-231, Saskatchewan is of the opinion that the legislation outlined in this Act is a definite improvement over the legislation contained in Bill C-120.

2. With respect to the main issues in Saskatchewan's policy statement in February, 1965, the legislation in the new Act on rail rationalization and the abandonment of uneconomic branch lines, Crows Nest Pass and associated rates, the bridge subsidy, and costing procedures, correspond closely with the views expressed by Saskatchewan.

3. Saskatchewan feels that the item in the legislation dealing with unjust discrimination and undue preference requires considerable clarification. Saskatchewan wants adequate protection against discrimination retained in the Act.



4. With reference to the question of maximum rate control, no useful conclusion can be achieved unless and until the railways agree to provide adequate cost data. The operation of the maximum rate formula should be reviewed in not more than three years.

5. There seems to be no reason why the railways could not make cost data available to the commission on a confidential basis. As a consequence resulting findings would be more likely to be accepted by all parties concerned. The fears now expressed by the railways as to the confidentiality of their cost data would be alleviated and in all probability would result in the railways co-operating with the authorities by releasing the data.

6. The proposal to set up a National Transportation Commission is a good one and should provide the machinery for rationalizing all transportation media with due reference to costs and service needs. The results would be greater efficiency in transportation services with consequent benefits to the nation as a whole.

7. Saskatchewan feels that the new proposed National Commission should have a membership that is capable of defining and rationalizing the major issues in transportation, both regional and national, so as to achieve optimum utilization of Canada's transportation resources. The commission must be able to maintain the confidence of all parties concerned, both regionally and nationally, if it is to obtain the necessary co-operation and function effectively.

8. Inclusion of extra-provincial truck and pipeline movements as added responsibilities for the new commission is practically essential if full benefits are to accrue to Canada from a better integrated national transportation system.

9. Saskatchewan currently has slightly over 1,000 miles of unprotected lines that are possible candidates for abandonment. In the event that these unprotected lines are considered outside the scope of Bill C-231, Saskatchewan strongly recommends that full economic and social considerations apply to those areas served by the unprotected lines as would be the case if these abandonments took place under provisions outlined in the new legislation.

10. Finally, Saskatchewan, recognizing that transportation in Canada is not a regional matter only, but one of national importance, highly commends the Government of Canada for its efforts towards meeting the transportation needs of all areas of the country. All efforts will be extended by the province towards assisting federal authorities in obtaining co-ordinated viewpoints from all organizations in Saskatchewan, and also towards providing direct assistance through continued co-operation with the federal authorities in arriving at solutions to the remaining contentious phases of the legislation.

All of which is respectfully submitted this 1st day of November, 1966.

GOVERNMENT OF THE PROVINCE OF SASKATCHEWAN.

## APPENDIX A-23

ESTIMATE OF A "FIXED RATE" UNDER PROPOSED SECTION 336  
OF THE REVISED RAILWAY ACT (C-231) FOR THE MOVEMENT OF IRON  
ORE ON THE Q.N.S. & L. FROM MILE 224 TO MILE 8  
OF THAT RAILWAY

## COST STUDY

I. The study is concerned with establishing the variable costs, including variable capital costs such as might be produced under the regulations to be made by the Commission and the analysis of these costs to produce the "fixed rate" contemplated in Section 336.

For purposes of the study variable cost, operating or capital, is defined as being cost directly traceable to the addition of the proposed traffic, in the volume given, to a given traffic pattern of the Q.N.S. & L. or conversely the reduction in expense traceable to the subtraction of the proposed traffic from a given total traffic pattern of the Q.N.S. & L. in both cases on a long term basis. Thus variable cost becomes definable as long term marginal cost.

It is quite possible that variable costs as seen by the Commission might exceed long term marginal costs and this would likely be the case if elements of "fairness" or "justice" became involved in the allocation of costs not of a marginal character. Thus it might be considered "just" that if the added traffic causes wear and tear on rails the variable cost should include not only the cost of such wear and tear but also an allowance for some portion of interest on the capital investment in rail; regardless of the marginal cost dictum that since the rail investment has already been made and will not be enlarged by the added traffic no such allowances for interest should be made.

The costs and the deduced fixed rate resulting from this study should be viewed as being a floor below which the fixed rate could not go. How much higher the "fixed rate" might be set is indeterminate dependent as it would be on the Commission's definition of what constitutes "variable cost."

II. The variable cost is made up of the following factors:

	30,000 lb. cars	190,000 lb. cars
(1) Basic cost apart from costs of equipment, of added road facilities and the effect of traffic interference ...	\$ 2,190 (See Exhibit A)	\$ 0.741
(2) Locomotives and caboose equipment needed to move Wabush ore .....	.158 (See Exhibit B)	.062
(3) Cost of additional equipment needed by Q.N.S. & L. to handle its other traffics and to maintain its property directly traceable to the super-imposed Wabush traffic .....	.144 (See Exhibit C)	....

	30,000 lb. cars	190,000 lb. cars
(4) Additional track facilities needed to accommodate 5,000,000 long tons of Wabush ore .....	.160 (See Exhibit D)	....
(5) Additional transportation expense to the Q.N.S. & L. of moving traffics; incurred as a result of the 5,000,000 long tons of Wabush ore .....	.006 (See Exhibit E)	....
(6) Cost to Q.N.S. & L. resulting from reduction in effectiveness of road maintenance forces .....	.184 (See Exhibit F)	....
VARIABLE COST PER LONG TON	<u>\$ 2.842</u>	<u>\$ 0.803</u>

The unit costs used in this study are derived from an analysis of the D.B.S. published results for the Q.N.S. & L. for 1963. The 1965 Q.N.S. & L. results are undoubtedly better owing to higher traffic, but these figures are not yet available to the public. The use of 1963 figures states the cost conservatively.

It is evident that "variable cost" under Section 336(3) will require an allowance for road property investment. We therefore assume that 50 per cent of investment in road facilities is variable, notwithstanding the fact that the rail investment was made before any Wabush traffic became available, and did not require enlargement to handle the Wabush traffic.

The 1963 investment of the Q.N.S. & L. in road facilities is \$136,200,000. Not more than 5 per cent of this can be considered as assignable to passenger services giving an assignable to freight services \$130,000,000. Fifty per cent of this is \$65,000,000. The freight gross ton miles to move 16,000,000 long tons of ore from Mile 224 to Mile 8 assuming Wabush ore in carloads of 30,000 lbs. then 190,000 lbs. are 10,842,600 and 7,846,400 respectively so that the corresponding variable road capital is \$5.99 and \$8.28 per MGTM. The cost of interest plus fixed maintenance plus that portion of depreciation which is not proportional to use has been assumed as 9.5 per cent. This rate states costs conservatively because it is below the costs of capital presently being used by the Canadian Pacific Railway Company (Sec. 336(3)(b)). Our calculation yields \$0.57 of variable cost per MGTM for ore moved in 30,000 lb. cars and \$0.79 for ore moved in 190,000 lb. cars. The transport of 1 long ton of Wabush ore generates 1.002 MGTM in 30,000 lb. cars and .403 MGTM in 190,000 lb. cars which results in a variable cost of \$0.57 and \$0.25 respectively per long ton.



III. The summary of the foregoing and computation of the "Fixed Rate", are as follows:—

	30,000 lb. cars	190,000 lb. cars
Out-of-pocket cost .....	\$2.84	\$0.80
Less: Depreciation provision for road facilities (included in Exhibit A, account no. 2209) ..	.16	.08
	<hr/> 2.68	<hr/> .72
Road capital allowance as above .....	.57	.25
	<hr/> 3.25	<hr/> \$0.97
Variable costs .....	4.88	
	<hr/> 8.13	
Mark-up of 150% .....	1.14	
	<hr/> 9.27	
Reduction allowed $\frac{1}{2}$ (3.25 —.97) .....		
	<hr/> 6.02	
Fixed rate per long ton .....	<u><u>\$6.99</u></u>	

VARIABLE COST TO Q.N.S. & L. OF HANDLING 5,000,000 LONG TONS OF WABUSH ORE IN 30,000 LBS.  
AND 190,000 LBS. CAR LOTS AS PER PARAGRAPH 336, BILL C-231

ORE MOVES ROSS BAY JUNCTION TO ARNAUD JUNCTION

	30,000 lb. cars	190,000 lb. cars
Distance (Ross Bay Junction—Arnaud Junction).....	216	216
Tonnage—		
Ore (5,000,000 long tons).....	5,600,000	5,600,000
O.C.S. ....	112,000	112,000
	5,712,000	5,712,000
Ton Mileage—		
Revenue 5,600,000 × 216.....	1,209,600	1,209,600
O.C.S. 27 of 1,209,600 × 234/216.....	25,100	25,100
	1,234,700	1,234,700
Number of Trains—		
Ore 5,600,000/15 tons × 117 cars.....	3,191	5,600,000/35 × 117
O.C.S. 112,000/30 tons × 80 cars.....	47	47
Train Miles—		
Ore 3,191 trains × (216+8) × 2.....	1,429,600	225,500
O.C.S. 47 trains × (216+8) × 2.....	21,100	21,100
	1,450,700	246,900
	81,300	32,600
Work \$3,253,100 at 25 TRN miles per M.....		\$1,302,500 at 25 TRN miles per M.....
Car Miles—		
Ore (1,209,600/15 tons × 2.....	161,280,000	25,445,300
O.C.S. (25,100/30 tons × 2.....	1,673,300	1,673,300
Work Trains 81,300 × 12 cars per train.....	975,600	391,200
Caboose—O.C.S. (1 per train).....	1,429,600	225,500
O.C.S. (1 per train).....	21,100	21,100
Work trains (1 per train).....	81,300	32,600
	4,919,000	2,344,000
Gross Ton Miles—		
Ore Car miles × (15+23+23)/2.....	(thousands)	O.C.M. × (95+29+29)/2.....
O.C.S. Car miles × (30+21+21)/2.....	(thousands)	C.C.M. × 21.....
Caboose Car miles × 21.....	30,500	
	5,009,700	2,013,500
Power Unit Miles		
Ore 1,429,600 × 2 units.....	2,859,200	225,800 × 4 units.....
O.C.S. 21,100 × 4 units.....	84,400	32,600 × 1.8.....
Work 81,300 × 1.8.....	146,300	1% of 903,200.....
Switching—Ore 1% of 2,859,200.....	28,600	2,500
Non-ore 3% of 84,400.....	2,500	1,057,800
	3,121,000	
Constructive Train Miles		
Enginemen 3,191 + 47 trips × 542.....	1,755,000	504 + 47 trips × 542.....
Trainmen 3,191 + 47 trips × 540.....	1,748,500	504 + 47 trips × 540.....

VARIABLE COST TO Q.N.S. & L. OF HANDLING 5,000,000 LONG TONS OF WABUSH ORE  
IN 30,000 LBS. AND 190,000 LBS. CAR LOTS AS PER PARAGRAPH 336, BILL C-231

I. Road Maintenance

		30,000 lb. cars		190,000 lb. cars			
I. Road Maintenance							
A/c	2201 Superintendence.....	5,009,700 MGT/M at.....	10.0¢	\$ 501,000	2,013,500 MGT/M at.....	10.0¢	\$ 201,400
	2202 Maintaining roadway and track.....	5,009,700 MGT/M at.....	48.0¢	2,404,700	2,013,500 MGT/M at.....	48.0¢	966,500
	2203 Maintaining track structures.....	5,009,700 MGT/M at.....	0.5¢	25,000	2,013,500 MGT/M at.....	0.5¢	10,100
	2204 Maintaining ancillary structures.....	5,009,700 MGT/M at.....	4.0¢	200,400	2,013,500 MGT/M at.....	4.0¢	80,500
	2205 Dismantling retired road property.....			—			
	2206 Equalization—road.....			—			
	2209 Road property—depreciation.....			816,500			402,000
	2210 Injuries to persons.....	1,450,700 Transp. Train Miles at.....	1.5¢	21,800	246,900 Transp. Train Miles at.....	1.5¢	3,700
	2211 Other roadway and structures expenses.....	5,009,700 MGT/M at.....	2.0¢	100,200	2,013,500 MGT/M at.....	2.0¢	40,300
	2212 Maintaining joint facilities—Dr.....			—			
	2213 Maintaining joint facilities—Cr.....			—			
				\$ 4,069,600			\$ 1,617,500

II. Equipment Maintenance

A/c		5,009,700 MGT/M at.....	2.0¢	100,200	2,013,500 MGT/M at.....	2.0¢	40,300
2221	Superintendence.....	5,009,700 MGT/M at.....	0.6¢	30,100	2,013,500 MGT/M at.....	0.6¢	12,100
2222	Shop and power plant machinery.....						
2223	Other equipment and machinery—depreciation.....						
2224	Dismantling retired shop and power machinery.....						
2225	See Increment Capital						
2226	Locomotives.....	3,121,000 unit miles at.....	25.0¢	780,000	1,057,800 unit miles at.....	25.0¢	264,500
2227	Ore.....	161,280,000 car miles at.....	0.25¢	403,200	25,465,400 car miles at.....	0.25¢	63,700
2228	Other, including caboose.....	4,180,900 car miles at.....	3.0¢	125,400	2,344,000 car miles at.....	3.0¢	70,300
2229	Vessels.....						
2230	Wages.....	5,009,700 MGT/M at.....	4.5¢	225,400	2,013,500 MGT/M at.....	4.5¢	90,600
2231	Other equipment.....			Nil			Nil
2232	Dismantling—equipment.....			—			—
2233	Equalization—equipment.....			—			—
2234	Rolling stock and vessels—depreciation.....	See Increment Capital					
2235	Injuries to persons.....	1,450,700 Transp. train miles at.....	1.5¢	21,800	246,900 Transp. train miles at.....	1.5¢	3,700
2236	Other equipment—expenses.....	10% of other excluding depreciation.....		168,700			54,500
2237	Maintaining joint equipment—Dr.....			—			—
2238	Maintaining joint equipment—Cr.....			—			—
2239				\$ 1,855,100			\$ 559,700



VARIABLE COST TO Q.N.S. & L. OF HANDLING 5,000,000 LONG TONS OF WABUSH ORE  
IN 30,000 LBS. AND 190,000 LBS. CAR LOTS AS PER PARAGRAPH 336, BILL C-231

### III. Traffic

A/c 2251 Superintendence	30,000 lb. cars	100,000 lb. cars
2252 Agencies	—	—
2253 Other traffic expenses	—	—
Depreciation—Road	30,000 lb. cars	100,000 lb. cars
Investment and 1963 Rails		
O. T. M.		
Applicable Mile 224—Mile 8 216/358		
Less: 10% salvage		
Adjusted Tonnage		
Schefferville 11,500,000 × 1.6 <sup>(1)</sup>		
Present study—		
Schefferville } 11,000,000 × 1.6 <sup>(1)</sup>		
Carol } 5,000,000 × 4.1 <sup>(2)</sup>		
Wabush }		
Life at 11,500,000 long tons	15 years	6.4% Dep.
Life at 11,000,000 long tons	15.7 years	6.4% Dep.
Life at present study levels	15 × 18.4/25.6 =	13.9% Dep.
Life at present study levels	15 × 18.4/25.6 =	7.2 years
Variable percentage depreciation specified traffic levels only	7.5%	2.9%
Variable depreciation specified traffic levels only \$9,010,000 × 7.5%		\$261,300
Investment and 1963 Ties		
Applicable Mile 224—Mile 8 216/358		
Life at 11,000,000 long tons	20.1 years	5.0% Dep.
Life at present study levels	15.9 years	5.5% Dep.
Variable percentage depreciation	1.3% Dep.	0.5% Dep.
Variable depreciation specified traffic levels only \$4,440,700 × 1.3%		\$ 57,700
Investment and 1963 Ballast		
Applicable Mile 224—Mile 8 216/358		
Life at 11,000,000 long tons	15.1 years	6.8% Dep.
Life at present study levels	10.5 years	9.5% Dep.
Variable percentage depreciation	2.8% Dep.	1.1% Dep.

Summary	\$ 83,000	\$2,861,800 × 1.1%	\$ 31,500
Rails and O. T. M.	\$675,500		
Ties	57,700		\$261,300
Ballast	83,000		22,200
			31,500
	\$816,500		\$315,000

Variable depreciation specified traffic levels only \$2,861,800,800 × 2.9%.

IV. Transportation

A/c 2231 Superintendent	1,450,007	Transp. train miles at	10.0¢	\$	145,100	245,900	Transp. train miles at	10.0¢	\$	24,700
2231½ Dispatching	1,450,700	Transp. train miles at	20.0¢		290,100	246,900	Transp. train miles at	20.0¢		49,400
2282 Station employees	5,712,000	net ton at	1.5¢		85,700	5,712,000	net ton at	1.5¢		85,700
2282½ Other station service	5,712,000	net ton at	0.5¢		28,600	5,712,000	net ton at	0.5¢		28,600
2283 Yard enginemen	5,600,000	revenue tons at	0.25¢		14,000	5,600,000	revenue tons at	0.25¢		14,000
2261 Other yard employees										
2261½ Yard locomotive fuel/power										
2285 Other yard expenses										
2288 Operating joint yards and terminals—DR										
2289 Operating joint yards and terminals C Cr.										
2270 Train enginemen	1,745,000	constructive train miles at	33.0¢		579,200	295,060	constructive train miles at	33.0¢		98,500
2271 Train locomotive fuel and power	5,009,700	MGT/M at	13.5%		676,300	2,013,500	MGT/M at	13.5%		271,800
2273 Other train locomotive expense	40% of A/c 2271				270,500	40% of A/c 2271				108,700
2274 Trainers	1,745,500	constructive train miles at	58.0¢		1,014,100	297,500	constructive train miles at	58.0¢		172,600
2275 Other train expense	1,450,700	Transp. train miles at	35.0¢		507,700	246,900	Transp. train miles at	35.0¢		86,400
2277 Injuries to persons	1,450,000	Transp. train miles at	3.0¢		43,500	246,900	Transp. train miles at	3.0¢		7,400
2278 Loss of equipment	1,268,600	MRT/M at	0.5¢		6,000	1,209,600	MRT/M at	0.5¢		6,000
2279 Other casualty expense	1,450,700	Transp. train miles at	3.0¢		48,600	246,900	Transp. train miles at	3.0¢		7,400
2280 Other rail transportation expenses	5,009,700	MGT/M at	1.1¢		55,100	2,013,500	MGT/M at	1.1¢		22,100
2281 Operating joint facilities—DR										
2282 Operating joint facilities—Cr.										
					\$ 3,759,400					\$ 983,300

V. Miscellaneous

A/c 2288 Miscellaneous operations										
2289 Operating joint miscellaneous facilities—Dr.										
2290 Operating joint miscellaneous facilities—Cr.										

VI. General

A/c 2291 Administration	5,009,700	MGT/M at	17.0¢	\$	851,600	2,013,500	MGT/M at	17.0¢	\$	342,300
2292 Pensions	5,009,700	MGT/M at	4.0¢		200,400	2,013,500	MGT/M at	4.0¢		80,500
2294 Other general expenses	5,009,700	MGT/M at	3.5¢		175,300	2,013,500	MGT/M at	3.5¢		70,500
2295 General joint facilities—Dr.										
2296 General joint facilities—Cr.										
					\$ 1,227,300					\$ 493,300

(1) 90 + 27 + 27/90 or (05 + 27 + 27)/95  
(2) 15 + 23 + 23/15  
(3) 95 + 29 + 29/95







COST OF INTEREST AND DEPRECIATION ON ADDITIONAL EQUIPMENT  
NEEDED BY THE Q.N.S. & L. TO HANDLE ITS OTHER TRAFFICS,  
AND TO MAINTAIN ITS PROPERTY, DIRECTLY TRACEABLE  
TO THE SUPERIMPOSED WABUSH TRAFFIC

30,000 lb. cars

(1) Interference with Carol and Schefferville ore movements—

Between Mile 224 and Mile 8 the Q.N.S. & L. will be handling 4,000,000 long tons from Schefferville and 7,000,000 long tons from Carol. The superimposition of 5,000,000 long tons of Wabush ore will slow the movement of the 11,000,000 tons and, therefore, will over an extended period, require additional locomotive equipment.

Using the factors as in Exhibit B for locomotive performance but with northbound speeds at 25 mph. and a carload of 95 tons it develops that the "normal" movement of 11,000,000 long tons would require 16 locomotive units. Introducing  $4\frac{1}{2}$  hours of delay as a result of adding 5,000,000 long tons of Wabush traffic would increase the cycle time by 25 per cent raising locomotive requirements to 20 units. This is an increase of 4 locomotive units.

A similar analysis leads to the conclusion that an additional caboose would be required.

Capital	Cents per Ton		Total
	Interest	Depreciation	
\$ 970,000	.97	.96	1.93

(2) Interference with other Q.N.S. & L. revenue traffic—

It will be assumed that the investment of the Q.N.S. & L. in equipment is no more than necessary for the traffic offering.

The balance sheet shows an investment of \$4,500,000 in freight and passenger cars and other equipment. It is estimated that associated locomotive equipment would be \$4,000,000 giving \$8,500,000.

About two-thirds of the total effort is in the zone Mile 224 to Mile 8 or \$5,700,000 of which 80 per cent is variable or \$4,560,000. The effect of interference would be to slow the movement of traffic by perhaps 25 per cent of the running time indicating an increment of capital due to interference of \$1,140,000.

Capital	Cents per Ton		Total
	Interest	Depreciation	
\$1,140,000	1.14	.90	2.04

(3) Interference with Work Equipment—

The work equipment in the zone Mile 224 to Mile 8 is estimated as \$2,070,000. To this would need to be added an estimated \$794,000 due to increased load (see section 5 hereunder).

The effect of slower road movement would not be relatively so severe as with revenue movement because work equipment does not have so much road

vs. standing time. It will be sufficient to allow 10 per cent or say \$300,000. There would also be an increase of 1 locomotive unit assigned to work service costing \$235,000.

Capital	Cents per Ton		Total
	Interest	Depreciation	
\$ 535,000	1.53	1.45	.98

(4) Interference with Roadway Machines—

Roadway machines on the section are estimated at \$2,650,000. To this would need to be added an estimated \$1,000,000, due to increased load (see section 6 hereunder). Much of this equipment is off track equipment and, therefore, not so liable to interference as on track equipment. An allowance of \$400,000 additional should be sufficient.

Capital	Cents per Ton		Total
	Interest	Depreciation	
\$ 400,000	1.40	1.66	1.06

(5) Increase in Work Equipment due to Greater Maintenance—

The investment in work equipment is shown as \$2,725,000. 76% of this is estimated as allotted to the zone Mile 224 to Mile 8 or \$2,070,000. Maintenance due to topography and weather as distinct from use is two-thirds leaving as proportional to use \$690,000. An allowance of 115% of this amount is necessary or \$794,000. A further allowance for locomotives and cabooses 3 locomotives units and 3 cabooses would be needed costing \$800,000.

Capital	Cents per Ton		Total
	Interest	Depreciation	
\$1,594,000	1.59	1.28	2.87

(6) Increase in Roadway Machines due to Greater Maintenance—

The balance sheet shows total investment in roadway machines of \$3,500,000. Of this 76% is estimated as assigned to the zone Mile 224—Mile 8 or \$2,660,000. One third of this is variable or \$887,000 and since the work load is increased 115% the added capital would be \$1,020,000.

Capital	Cents per Ton		Total
	Interest	Depreciation	
Say \$1,000,000	1.00	1.66	2.66

(7) Increase in Shop Machinery and Shops—

The balance sheet shown an investment of \$982,000 for equipment and \$5,000,000 for shops. This investment reflects the set up to maintain ore cars. If adjusted for this the investment would be: shop machinery—\$600,000 and shops—\$4,000,000. This relates to an inventory of equipment of \$24,000,000. The increase in equipment inventory is \$14,000,000 and if 60% is the variable portion of investment the added capital would be \$210,000 for machinery and \$1,400,000 for shops.



The added cost would consist of interest and depreciation along with fixed maintenance.

		Cents per Ton			
				Fixed Main-	Total
		Capital	Interest	Depreciation	tenance
Equipment Shops	\$ 210,000	.21	.14	.01	.36
	1,400,000	1.40	.56	.56	2.52
	<hr/> 1,610,000	<hr/> 1.61	<hr/> .70	<hr/> .57	<hr/> 2.88

SUMMARY

				Fixed Main-	Total
		Capital	Interest	Depreciation	tenance
(1)	\$ 970,000	.97	.96		1.93
(2)	1,140,000	1.14	.90		2.04
(3)	535,000	.53	.45		.98
(4)	400,000	.40	.66		1.06
(5)	1,594,000	1.59	1.28		2.87
(6)	1,000,000	1.00	1.66		2.66
(7)	1,610,000	1.61	.70	.57	2.88
	<hr/> \$7,249,000	<hr/> 7.24	<hr/> 6.61	<hr/> .57	<hr/> 14.42

190,000 lb. cars

The foregoing holds true if ore is shipped in 30,000 lb. cars, but if handled in 190,000 lb. cars then the costs as outlined in this Exhibit C would become negligible. The number of trains required to move the Wabush ore in 190,000 lb. car lots drops from 8.7 (9) to 1.5 per day (see Exhibit D) and would result in few if any additional capital outlays as envisioned here—thus in the calculations of the 190,000 lb. cars no costs have been included for this Exhibit C.

ADDITIONAL TRACK FACILITIES NEEDED TO ACCOMMODATE 5,000,000 LONG TONS OF WABUSH ORE

	30,000 lb. cars	190,000 lb. cars
The average trains per day in each direction on the zone Mile 224 to Mile 8 is estimated as follows:		
Schefferville ore.....	1.5	1.5
Carol ore.....	2.0	2.0
Wabush ore.....	9.0	1.5
All other.....	4.5	4.5
	17.0	9.5

The throat is between Tika and Tonkus 11.4 miles. The practical capacity for train movements is determined by the southbound speed 20 mph., the northbound speed 14 mph., the clearance time 2 min. and the factor of practicability .70. It is 12 trains.

This figure of 9.5 trains per day is below capacity estimated as 12 trains per day. Therefore no cost for additional track facilities is required.

It is, therefore, evident that practical capacity is exceeded. This can be remedied by installing 15 additional sidings with power switches, modification of signals and C.I.C. along with provision of back tracks. These additions are estimated to cost \$8,000,000 and in marginal costing is chargeable to Wabush.

The added costs would consist of interest, depreciation and fixed maintenance.

Cents per Ton			
Capital	Interest	Depreciation	Fixed Maintenance Total
\$8,000,000.....	8.00	4.00	4.00 16.00

ADDITIONAL TRANSPORTATION EXPENSE TO THE  
Q.N.S. & L. OF MOVING TRAFFICS, INCURRED AS  
A RESULT OF THE SUPERIMPOSITION OF  
5,000,000 LONG TONS OF WABUSH ORE

*30,000 lb. cars*

A study of the grid shows that on the average each northbound train must negotiate 14 meets. The average time lost per meet is estimated at 18 minutes per meet of which 3 minutes is lost stopping and starting and 15 minutes is lost at sidings. This introduces  $4\frac{1}{2}$  hours of delay and raises the time of northbound trains to a point where overtime becomes likely for engine and train crews. The average northbound speed is 16.8 mph. whereas the critical speed is 16.3 mph. A skewed probability curve indicates 7 hours overtime per day. The cost of an hour of overtime is estimated at \$9.00 giving an annual cost of about \$23,000 per year. Use \$30,000, all chargeable to Wabush ore. This amounts to 0.6 cents per ton.

*190,000 lb. cars*

Inasmuch as Wabush trains are now reduced to 1.5 per day instead of 8.7 (9), the total number of trains is reduced from 17 to 10 (9.7). (See Exhibit D).

THEREFORE NO OVERTIME INTRODUCED AT THIS TRAFFIC LEVEL.



COST TO THE Q.N.S & L. RESULTING FROM REDUCTION IN  
EFFECTIVENESS OF SECTION MEN AND OTHER ROAD  
MAINTENANCE FORCES CAUSED BY ADDING  
5,000,000 LONG TONS OF WABUSH ORE TO  
THE Q.N.S. & L.

*30,000 lb. cars*

The time available for work of a maintenance man is 480 minutes gross per day. The effective time is less by reason of travel time to and from work and the interference caused by train movements. In this case the train density in 8 hours is 6 in each direction. The time track is occupied by trains is estimated at 36 minutes. There is, in addition, a shadow zone of about 3 minutes in advance of a train and of 2 minutes after a train, in which no effective work can be done; this amounts to 60 minutes per shift. Getting to and from work with a train density of 6, the time lost would be 50 minutes. This gives 334 minutes of effective work. If now train density is as it would be without Wabush traffic the effective time will rise to 390 minutes. This means that Wabush traffic requires an addition of 17 per cent to the labour force. To be safe use 20 per cent.

The estimated "normal" cost of labour for road maintenance is \$4,600,000 payroll expense. The increase is 20 per cent of this or \$920,000 per year which amounts to 18.4 cents per ton.

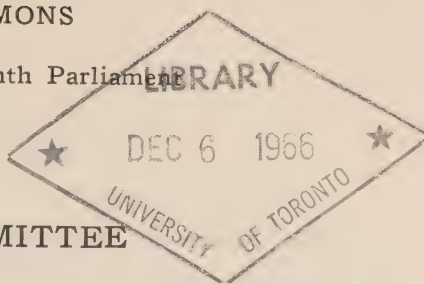
*190,000 lb. cars*

No costs included in the 190,000 lb. car study for the above factors, for reasons as outlined in Exhibit C4.



HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966



STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 33

WEDNESDAY, NOVEMBER 2, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESS:

Mr. G. L. Molgat, *representing the Liberal Party of Manitoba.*

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice Chairman:*

and

Mr. Allmand,	Mr. Howe ( <i>Wellington-</i>	Mr. McWilliam,
Mr. Andras,	<i>Huron</i> ),	Mr. Nowlan,
Mr. Bell ( <i>Saint John-</i>	Mr. Jamieson,	Mr. Olson,
<i>Albert</i> ),	Mr. Langlois	<sup>1</sup> Mr. O'Keefe,
Mr. Cantelon,	( <i>Chicoutimi</i> ),	Mr. Pascoe,
Mr. Côté ( <i>Nicolet-</i>	Mr. Legault,	Mr. Reid,
<i>Yamaska</i> ),	Mr. MacEwan,	Mrs. Rideout,
Mr. Deachman,	<sup>2</sup> Mr. Martin ( <i>Timmins</i> ),	Mr. Sherman,
Mr. Horner ( <i>Acadia</i> ),	Mr. Mather,	Mr. Southam,
		Mr. Stafford—(25).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Groos on November 2, 1966.

<sup>2</sup> Replaced Mr. Prittie on November 2, 1966.

ORDER OF REFERENCE

— 36 —

WEDNESDAY, November 2, 1966.

*Ordered*,—That the names of Messrs. O'Keefe and Martin (*Timmins*) be substituted for those of Messrs. Groos and Prittie on the Standing Committee on Transport and Communications.

*Attest.*

LÉON-J. RAYMOND.

*The Clerk of the House of Commons.*





## EVIDENCE

(Recorded by Electronic Apparatus)

WEDNESDAY November 2, 1966.

The CHAIRMAN: We have only one brief today. The brief is being presented on behalf of the Liberal Party of Manitoba by Mr. Gildas Molgat, leader of the Liberal party of Manitoba. I would ask for a motion that this brief be printed as an appendix to our proceedings.

Mr. REID: I so move.

Mr. ANDRAS: I second the motion.

Motion agreed to.

The CHAIRMAN: Mr. Molgat will cover the highlights and then we will be open for questioning.

Mr. Gildas MOLGAT (*Leader of the Liberal Party of Manitoba*): Thank you very much, Mr. Chairman. Ladies and gentlemen, I appreciate very much the opportunity of appearing before you today. It is the first time that I have appeared before any of the parliamentary committees of this house, and I hope that I can follow your rules and your normal procedures. If not, I am sure the Chairman will bring me to order.

I am not appearing before you today either as a lawyer, which I am not, or as an expert in transportation, which I also am not. I am appearing as a western Canadian who is obviously concerned about transportation matters, because for the province of Manitoba and the residents of Manitoba it is obvious, because of our geographic location, that to us transportation and transportation costs are more vital than to other parts of the country.

You have all received copies of my brief, and I will not be going over it in detail. I will touch on the highlights.

In general, we agree with the principles of the bill. We agree that there should be competition within the transportation system, and that the move toward freedom from regulations is, in fact, an improvement. Obviously the question of public interest must remain foremost, and from our reading of the bill we presume, in general, this is so. There are some areas of concern for us, and I will be touching on these specifically.

The general aspect of the bill of which we approve is that move away from the horizontal percentage increases about which the province of Manitoba and western Canada in particular have made very many representations in the past. We have always felt that these percentage increases were detrimental, in particular, to one area and past representations over the years have been very strong in this regard.

Moving away from this principle, as the present bill does is, in our opinion, a very major improvement. I will not be touching on other than the railway

aspects of the bill itself, and this is not because we are not concerned about other modes of transportation. I am sure those who have heard Manitoba complain about such things as Air Canada overhaul bases or Air Canada routes through the United States will know that we have other concerns. But at this time I want to concern myself mainly with the railway aspects of the bill.

First of all, insofar as branch line abandonment is concerned, in our opinion the bill, as it reads now, fails in making it mandatory for hearings to be held. As we read the bill, it is up to the transport commission to decide whether or not hearings are to be held; that they will proceed to consider first of all the costs and revenues of the railway, make a decision in that regard and then, if they feel like it, they will call a hearing where the public and other interested bodies can appear. In our opinion, the bill should be very clear in this regard, and should state, without any question, that hearings must be held prior to any discussion of costs and so on; in other words, that all of the aspects concerned with the abandonment of a branch line be considered at one time at a public hearing, and that those who have something to say in this regard, on other questions than costs altogether, also have the opportunity to make their brief.

We have a specific recommendation to make which we believe would ease greatly the whole idea of branch line abandonment, and would make a major difference in many areas to the acceptance of branch line abandonment—and, in fact, would possibly permit more rapid rationalization of the whole branch line structure. I realize that this is not a portion of the bill, but the statement that was made subsequent to the bill, giving us this map and the areas that are committed to 1975, is very interesting to us, obviously.

If you will look at that map you will see, for example, in the province of Manitoba, that one line just near Winnipeg going straight up north to a place called Hodgson. That one long line will isolate a number of points along it insofar as grain shipping is concerned. We suggest that the federal government should enter into a program of joint road construction with the provinces. Taking a line like that one as an example, if there were a proposal made to the areas along that line that the federal government would embark, along with the province, on the provision of a hard-surfaced access highway to the other lines—facilitating, therefore, the transportation of wheat, in particular, and grain to the shipping points—there could be a very major difference in the attitude of those people toward branch line abandonment.

Furthermore, if the hard-surfaced highway were put in it would be of general economic benefit to that whole area. It would mean that instead of possibly having subsidies that would last for a number of years, there would be a once and for all capital investment on a highway and that would be it. I would suggest to you that there is a precedent, in fact, for the federal government being involved in road construction instead of railway construction, because in 1962 this House passed a bill, which was chapter 13, "An act to authorize the construction and operation on behalf of Her Majesty of a line of railway in the province of Quebec between Matane and Ste. Anne des Monts." This was passed by your House. Total expenditure of \$14 million, estimate, approximately 57 miles in length.

That bill was passed but was not acted upon. Subsequently the house decided not to proceed with the railway construction but, in fact, to proceed with

highway construction, and your estimates reveal that over the years you have been putting into that specific highway, under Vote No. 40, toward the federal government's share of the cost of constructing highway No. 6 in the counties of Matane and Gaspé North, in 1966-67, \$3.5 million; in 1965-66, \$4 million. So you have already established the possibility of the federal government proceeding to replace railways by highways. The analysis or the comparison might not be identical, but I submit to you that an analysis of this sort of approach towards branch line abandonment in western Canada could make a major difference in the acceptance of such action and, in the long run, be a more efficient answer to some of our transportation problems.

There is another aspect which we think ought to deserve a great deal of consideration over the next few years, particularly for those areas that are now committed to 1975, namely, a careful study of the changes going on in traffic in western Canada in that period of time. I have submitted as an appendix to my brief two tables, Appendix A and Appendix B, giving you the wheat marketings in western Canada and the production of potash, which is almost exclusively western Canada—in fact, I think the figures are almost exclusively Saskatchewan. You will see that there are some major shifts here.

In the field of potash it is particularly evident that, in 1949, there were 46,000 tons and so far this year for merely six months there is almost a million tons.

In the case of wheat marketings, which is our major crop in the west, the increase is not as constant, but nevertheless over the years you will see that it does show a regular upward shift. This has been accentuated in the past two or three years by the change in the marketing situation. The fact that we are now, for part of the year at least, not on quota and there is a real demand for western grains, has meant that a lot more land is going into grain production, particularly wheat production, in western Canada. Once again, new lands are being opened up, and this could make a major difference to what would appear, and what might have appeared in the past, to be uneconomic branch lines.

Turning now to the Crowsnest rates, our position there is that we believe that these rates must remain as they are; that a bargain was made some years ago, and that bargain should remain; that the railways have benefited largely from one side of the bargain, at least, and we believe that if you analyze the costs completely that it will be shown the rates are remunerative rates.

So, we are not objecting to the three-year study, provided it is clearly understood that this three-year study is merely to determine whether or not a subsidy is required. If there is any indication that the study means erosion of the Crowsnest rates, then we want to make it clear now that we are objecting to any erosion of these rates. I think there is a question here of national interest. If we are going to remain in the business of growing grain at the centre of this continent farthest away from any of the shipping points on seaports, then I think the rates as they exist now must remain. So, we do not object to the study, but we want to make it clear that we could not contemplate any erosion of the rates.

Turning now to maximum rates and captive shippers, we have tried to find out exactly what the effect of this would be and, quite frankly, it is very difficult to analyze at this time. Who, in fact, are going to be captive shippers? We have



looked at it from a Manitoba standpoint, and at this moment there do not appear to be too many captive shippers as such. We looked, for example, at a railway line going up to Lynn Lake, which is obviously the only source of access at this time. There are portions on the Hudson's bay line which also can only be reached by rail. But when you go into the full analysis of captive shippers you ask, is, in fact, a company like Sheritt-Gordon at Lynn Lake a captive shipper? Have they other areas where, because of other connections or mines in other locations, they are, in fact, in a position to bargain with the railways? We are unable to determine this at this time. So, we would take the position that there is obviously here a question of concern, but it is difficult to assess what the final effect of it is going to be. So, rather than take a position that we must not do this, or we must not do that, we would suggest that the bill proceed as it does, but that instead of asking for a five year review, there be a more frequent review, and a means whereby a captive shipper can, in fact, appear, be heard, and have a form for appeal to the House or the transportation commission—in our opinion, preferably to your Committee here.

The same thing occurs in the matter of unjust discrimination. This feature of the previous legislation is now removed, as I understand it. You could find cases where a small shipper would find that he is not getting as favourable a rate as a very large shipper. He might be unjustly discriminated against. Under the previous act this was not permitted. Now it seems to us, if this is removed, that there ought to be a place for an individual, who feels that he has been aggrieved, to come forward and be heard.

This, then, comes to an overall recommendation that we make, which really applies to a number of these specifics, and that is regarding the work of this Committee. In our opinion the trip that this Committee undertook last year to western Canada in the matter of the hearings on the "Dominion" was an excellent thing for western Canada, because it gave an opportunity to members from across the country to actually see what our problems are; and it seems to us that a strengthening of your Committee would be a major step forward in assisting sound transportation development in Canada.

We think that your Committee could well be supplied with a small but permanent staff of experts, as a result of which the members of your Committee could become very well trained in the field of transportation. If this Committee then were to act as a board of appeal, anyone like myself, representing a group, or any individual or any shipper could come forward and be heard. We must realize, after all, that this bill is an experiment; it is a departure from what we have been trying to do in Canada for the past 50 years in the field of transport, when we have been really moving more and more into regulation.

It seems to us now that we are changing that now and saying that we are going to de-regulate. If you are going to do that, then I think you are going to run into some problems; problems with regions—possibly our own—who will feel that because of certain actions there is more centralization of industry going on when we think there ought to be decentralization; problems with individuals who may end up, because of a decision of the shipping companies, in not being able to continue their business, and your Committee would be an excellent place for anybody who wants to come forward to be heard. If this were done you could put this bill into effect with a lot less difficulty than might occur otherwise.

We believe as well that your Committee might have a major responsibility in looking at long-term problems in the transportation field. We look, for example, at our own situation in Winnipeg. The Canadian National Railways have built the new Symington yards. The Canadian Pacific Railway have a very old railway yard. Are they going to proceed and build two separate yards? Should we be looking at things like joint yards? After all, that has been done in the field of air transport. D.O.T. provides airports and airport terminals and they are used by all the airlines. Are there efficiencies here to be done in the field of railway or truck transportation? There are so many areas like this where, in our opinion, there ought to be continuing study, that we believe your committee could perform a very useful job for Canada by being strengthened and by making a specialized job of the transportation field.

This, Mr. Chairman, I think covers the main points with which we were concerned. I would like at this time to present to your committee an economic pamphlet of the province of Manitoba. I think this might be useful to some of the members if they want to have a special look at some of the problems in Manitoba. It gives details of our areas of production in the large field with specialization in mining, forestry and so on. I think it would give any of you who want to pursue in greater detail the problems of transportation in a specific area an easy means of reference.

The CHAIRMAN: Thank you very much, Mr. Molgat, and thank you for the economic pamphlet which we can leave with the clerk for use by members of the committee.

I would like to thank you for your comments on the work of this committee during its trip out west and, of course, what you think the committee should be doing with respect to the transportation bill and its appeal section. Much of what you said was complimentary. This committee has tried to keep active, almost daily. However, this committee is confronted with a problem when dealing with the subject matter of the bill itself. It might be that some of the members know the chairman's rulings in the past with regard to matters that are not within the scope of the bill, and I hope you keep these in mind. But, we do want to thank you for your very kind remarks and for your suggestion on the strengthening of the committee's own staff. Your comments in this regard will be in our minutes of proceedings and evidence.

Mr. CANTELON: I was very interested in your presentation, Mr. Molgat, particularly what you said about branch lines, that abandonments should not be mandatory. This is, of course, something we have heard before, and those of us who come from the west agree with you. I do as a shipper because, originally, there was supposed to be some 480 miles of line in my constituency to be done away with but now there are a lot less. Still, I think these places should have the opportunity of having hearings. I was particularly interested, too, in your statement about joint road construction.

The CHAIRMAN: Would you raise your voice a little, Mr. Cantelon.

Mr. CANTELON: I must be losing my carrying quality from being here so long.

I was saying I was particularly interested in what you had to say about joint road construction because this is something that back in 1963, I think it was, I first mentioned this to the committee and the minister, and suggested that something of this sort should be done. This is the first time it has come up again and I am glad to hear that you feel the same way about it as I do. I hope we will both succeed in convincing the government that they should put in these roads where they take out the rail lines.

I am also happy to know that you share our fears with respect to the naming of the Crowsnest Pass rate. I do not need to ask you any questions about it. We are afraid that after the review period expires this might be used as an excuse to reduce those rates. These are the things I am particularly interested in your presentation. There were other things but probably there are others who might have something to say about that.

Mr. PASCOE: Mr. Chairman, first I want to comment on the second paragraph of the brief where it says Manitoba is quite concerned about the possible effects of this bill. I want to say that Saskatchewan is concerned too. We are farther from the East than Manitoba is.

Following up the question of branch lines, just as a point of interest, Mr. Molgat referred to the line up to Hodgson. Could you say how many country elevators are on that line?

Mr. MOLGAT: No, I am sorry; I cannot tell you exactly how many but my guess would be about eight.

Mr. PASCOE: It would be around eight?

Mr. MOLGAT: I would think that would be about it.

Mr. PASCOE: How is the road situation up there now?

Mr. MOLGAT: As a matter of fact I would be very happy to supply members with road maps of the Province of Manitoba which will give you a very easy means of reference.

Mr. PASCOE: I note from the map there are not very good road facilities there now, and if that line is lifted those eight elevators will be without any service at all for shipping the grain out.

Mr. MOLGAT: It would be difficult, Mr. Pascoe. What there is at the moment are gravel roads, and not the highest quality in all cases. But, there are to the east two hard surface roads, number 7 and number 8, both of which parallel existing railway lines that are at least committed to 1975.

Mr. PASCOE: But if that line is taken out the nearest country elevators would be quite a long way away on the other line?

Mr. MOLGAT: That is right, with not particularly good access roads in between.

Mr. PASCOE: The map on page 6 of your brief shows the lines that are being frozen until 1975. You say here that a line that today appears ripe for abandonment may not be so in ten years. Would you advocate that they freeze all lines until they look at it more carefully?

Mr. MOLGAT: I would think there is certainly a feeling in the west that there should be no abandonment at all. But, as time goes on, and as other means of



transportation are available, I think there is a realization in a number of points, in Manitoba at least, that there has to be some reduction of the lines, or at least they are prepared to accept some reduction, provided there is alternate transportation facilities. So, taking the Manitoba case the lines that are up for abandonment now, at least the ones that are allowed, I think come to 484 miles in Manitoba. Some of those areas would be badly hurt if there is no alternate means of transport provided. I mentioned the Hodgson line because it is the most evident one. If you go to the northwest you will see two other branches. I did not mention them because one happens to be in my constituency. I did not want to be specifically pleading a case of my own but I might mention it because I do know the area even better. There is the case of one that hooks around there and goes from the village of Ste Rose du Lac to Rorketon, Manitoba, a distance of about 30 miles. The road there at present is a very inferior gravel road; it is not a highway. Quite obviously someone who is growing grain at the Rorketon end is going to be in an entirely different position if that railway line is taken out and there is no replacement. If there was a decent hard surface highway put in then I think it would be acceptable to the area.

Mr. PASCOE: I must apologize for not knowing your constituency better, and also Hodgson. Are these areas fairly good wheat growing areas?

Mr. MOLGAT: It is growing but most of it is mixed farming at this time. But I did mention the fact that where wheat marketing is now easier there is more and more of that land being opened up. What was previously bush land is now being converted to crop land.

Mr. PASCOE: You advocate that before any line is abandoned there be compulsory hearings?

Mr. MOLGAT: That is right.

Mr. PASCOE: Even the lines that are—

Mr. MOLGAT: Even the lines that are presently allowed. I think it is essential that there be a hearing so all the facts come out, not just the cost figures of the railway.

Mr. PASCOE: I have just one more question I want to bring up, Mr. Chairman. On page 13 you say mention has already been made of the concern Manitoba would have over any trend in the freight rate structure toward favouring further industrial development in central Canada at the expense of the provinces lying to the East or West. Now this bill proposes the phasing out in three years of the bridge subsidy of \$7 million a year. Do you see that affecting our areas?

Mr. MOLGAT: No, I think, really, we have been affected more in the Prairies by the horizontal percentage increases in the past. These have had a very discriminatory effect on western Canada, and the freeing of the rates, because of the fact that truck competition is becoming more and more important, I think, will more than offset the loss of such a subsidy.

Mr. PASCOE: You do not see any raising of the rates in connection with that?

Mr. MOLGAT: I think we would be better off in the west with this sort of approach rather than continuing the present situation and having a further horizontal increase.

Mr. PASCOE: Just to follow that up, on page 2 the brief states:

The Liberal Party of Manitoba does not accept any such argument. We cannot forget that one of the main principles of the legislation is the orderly reduction of the huge subsidies that continue to be paid out of the Treasury to the railways.

Now, if that subsidy is completely eliminated, who pays the shot?

Mr. MOLGAT: The subsidy, presumably, will be eliminated under this bill, over a period of years.

Mr. PASCOE: That money has to be made up somewhere?

Mr. MOLGAT: That money has to be made up somewhere.

Mr. PASCOE: How?

Mr. MOLGAT: Presumably there will be increases in rates in certain areas. In the past what happened? Increases were put across the board, 20 per cent?

Mr. PASCOE: Yes.

Mr. MOLGAT: Who ended up paying most of it? Western Canadians did. We believe with this technique that we will not end up paying most of it. We may end up paying part of it but it will be better than what has happened in the past, when we paid the largest share of it.

Mr. REID: I think Mr. Molgat should be congratulated. I have not seen so many members of the committee out for any other distinguished person who has appeared before us.

The CHAIRMAN: That is all very nice, Mr. Reid, but perhaps you have missed the times when there has been a full committee.

Mr. REID: No, I have never missed. Just for my own information, Mr. Molgat, could you give the department that pays the cost of this road that is being built in the province of Quebec.

Mr. MOLGAT: I am referring to the estimates for the fiscal year ending March 31, 1967, the Government of Canada, Department of Public Works.

The CHAIRMAN: I am informed there is another joint federal-provincial venture in relation to rail line abandonments.—perhaps Mrs. Rideout could tell us about it—the Moncton-Buctouche highway, 1964-65.

Mr. REID: Can you tell us, Mr. Molgat, anything about how the cost of this is presently carried. Is it being split 60-40 or 90-10 as in the case of the trans-Canada?

Mr. MOLGAT: I am sorry, Mr. Reid, I do not think I can give you that full information at the moment. The details I have are the original bill, which provided for \$14 million for 57 miles and presumably it is going to be paid at full federal expense. The estimates merely say toward the federal government's share of the cost of constructing highway number 6 in the counties of Matane and Gaspé North, Quebec. But exactly what the share agreement is, I am sorry, I cannot tell you at the moment.

Mr. REID: In view of the fact that the people getting part of the benefit for the withdrawal of these branch lines are the railways, would you say it is

possible that perhaps the railways might be asked to provide a contribution to this type of roadbuilding program, as they would be reaping the benefit?

Mr. MOLGAT: I would certainly see no objection to approaching the railways on a three-way approach to this, with the federal government, the province and the railways themselves contributing. If the railways themselves are asking for the abandonment and if they are going to get a benefit from the abandonment then again, I think they would be better off with a capital investment which is a once and over with investment rather than continuing a line which they feel is not profitable.

Mr. PASCOE: They could donate their railbed.

Mr. MOLGAT: As a matter of fact, we looked into the question of railbeds, Mr. Pascoe. It might, in some cases, work but in most cases we found, studying our map at least, what was needed was not really a line that would run parallel to the present line but instead a checkerboard pattern connecting with other railway lines. So it really meant new construction.

Mr. REID: I have just a brief question, sir, on the subject of maximum rates. You used the example, I think, of Sherritt Gordon at Lynn Lake and if I can recall your argument properly you said you did not believe they would be a captive shipper because they had sufficient economic power in other installations they had so as to be able to bargain in a fair way with the railway. Just because they were at the end of a long railway line and were perhaps the largest shipper did not necessarily mean that they had no bargaining power?

Mr. MOLGAT: Yes. Let me make it clear. I do not know whether that is the case. If I made the statement I did not think they were a captive shipper then I would want to correct that statement. What I meant to say was that I am in no position to judge at this time whether or not they are a captive shipper; they may well be. But it may be that because, for example, Sherritt Gordon may have a mine elsewhere in Canada or other mining interests or other interests where they are dealing with the railway, they are not in a position where they cannot bargain; they may have a bargaining position. But, in any case, I believe that they must have a place where they can appear if, in fact, they are a captive shipper and they do not get what they think is right. I think in that case—this is open to argument obviously—I would like to see your committee available to hear someone who thinks he is not being treated properly.

Mr. REID: It seems to me, since this is a committee that is basically political, that if anybody was turned down by the commission this committee would be very active in looking into the matter.

The CHAIRMAN: I think that is beyond the role of this committee so far as this area is concerned, Mr. Reid.

Mr. SHERMAN: Mr. Molgat, I would like to compliment you on your submission and also say I am very interested in your proposal for the possible future terms of reference for this committee with respect to transportation problems.

I really only have one question I would like to ask you, and it relates to the section of the brief which deals with maximum rates. I imagine it is a question you anticipate—I am sure the Chairman anticipates it, anyway. You do not



make any mention, Mr. Molgat, of the controversial point that has been argued quite strenuously by all three Prairie provinces, in an informal way, over the past few months and will be presented as a formal criticism of Bill No. C-231 during the next few weeks. The chief point at issue is the one dealing with railway cost to data which members of the committee are interested, and certainly the Prairie provinces are interested, in so far as we feel a certain amount of variable cost data is absolutely necessary if we are going to intelligently deal with the maximum rate formula and understand its implications and its ramifications. I am interested particularly in the fact that your brief omits any mention of that controversial point and I wonder if you would comment on that?

Mr. MOLGAT: Yes, we looked at that, as a matter of fact, and our concern here is this. Can you, on the one side, say to the railways, all right, you have to become competitive, you have to proceed now and get business on your own and set up competitive rates but, on the other side, tell them, you have to submit all your cost figures so the potential customers will know in advance all your costs and then proceed to negotiate with you. This is where we just could not see how you could solve the question by insisting that the railways provide all their cost figures. I do not know what the answer is but I see some difficulty in telling them to proceed to compete, but they must start out by getting all the information on their costs. Now can that be done.

Mr. SHERMAN: But, on the other hand, you propose in your brief that this committee assumes an even wider responsibility in terms of the national transportation picture in the future than it currently enjoys.

Mr. MOLGAT: That is right.

Mr. SHERMAN: You even go so far as to imply—at least I infer this from your brief—that perhaps people who feel they are captive shippers, who are unhappy with the arrangements made for them by the new Canadian transport commission, may come and appeal to this body for redress. It seems to me that there is an inconsistency there.

The CHAIRMAN: Mr. Sherman, I have tried to find if there is a gap. Mr. Molgat went through his brief, and so far as the Chair was concerned he adhered to our former ruling to the effect that we are concerned with the bill and that any questioning in regard to the role of the transport committee, which had been ruled out at former meetings, should be ruled out at this particular meeting. We are concerned with the bill which is before us, and not the role of this committee.

It is in the brief, but that does not mean that it is completely in order to be presented.

Mr. Sherman, you understand what I mean?

Mr. SHERMAN: I do, and I defer to that judgment, Mr. Chairman. I simply wanted to illustrate the fact that I find it rather inconsistent, in view of the position that Mr. Molgat and his colleagues have taken in this brief with respect to the bill, that there is no reference to, or apparent concern for, this point of controversy which is going to occur again and again in the next few weeks as we analyze the bill and its import, and which has been stressed most emphatically by Mr. Molgat's province and mine and other western provinces.

Mr. MOLGAT: I recognize the problem, Mr. Sherman. The position we take is this: It is very difficult at this stage to say how important this captive shipper

element is. Who, in fact, are our captive shippers in Manitoba? We have sat down and tried to look at it to see how much importance this has to the province of Manitoba at this stage. We are unable, frankly, to come up with any large number of captive shippers.

Now, if that is so, is it proper for us to say at this time: "Well, let us take some remedial action, or do some things for a problem which may not be the problem which we seem to think it is?" We prefer to take the other approach to it. "All right, let us give this a try. Let us see what problems develop," as long as there is a continuing study of this bill. This is why we say: "Do not wait five years to find out what is going on. Have a continuous study of this and keep the thing under review." It may turn out that there is really not a major problem with captive shippers. This is what appears to us at this time to be the case in Manitoba.

Mr. SHERMAN: In other words, Mr. Molgat, you are going on pure hope.

Mr. MOLGAT: Well—

Mr. PICKERSGILL: Mr. Chairman, I wonder if, before the questioning proceeds, I could remove one element where I think there is possibly a misunderstanding, from what Mr. Sherman has said?

I will reiterate what I said in my telegram to the three prairie premiers, which was tabled here. If we can be given typical samples of probable—"likely" is the word, I think, I used, being a rather colloquial type—likely captive shippers, then we would look at this question of costs. But up to now, apart from Mr. Scully, yesterday, and the coal operators, we have not had, to my knowledge, and I have not had as Minister of Transport, anyone come and say that he was likely to be a captive shipper. What has been suggested up to now is that the railways should give a whole lot of information *in vacuo*. That is not fair. Mr. Olso did give us a list, and I went over his list, and it did not appear from that list that any of those commodities, or shippers, were likely to be captive shippers.

I just want to make it clear that I, as Minister, am not taking the position that, if we can in advance identify somebody who is likely to be a captive shipper, and is likely to need this protection, we should not seek to get as much information as possible; but it has not been necessary to seek such information yet.

Mr. SHERMAN: Well, conceding that point, Mr. Pickersgill, and leaving the actual specifics of the captive shipper aside, the inference that I draw from your brief, Mr. Molgat, on this particular subject is that you do not feel that it is necessary that the committee at this stage—at this point in time—be provided with variable cost data from the railways on point-to-point shipping situations in order that the Committee may be properly and intellectually equipped to assess the new maximum rate formula. Is that correct?

Mr. MOLGAT: I would think, speaking strictly of the situation in Manitoba, that if one could come forward with a specific, that, say, Sherritt Gordon at Lynn Lake is in fact a captive shipper, then I would say, "Fine; let us analyze that." You said you hoped. It is really beyond a matter of hope; this is really by looking at the situation fairly carefully in Manitoba. I must readily admit here that we do not have any paid experts to do our work—we have to do this with volun-

teers—but by getting volunteers to look at the map we cannot determine that there are too many captive shippers in Manitoba. We have taken the position that this is not at this stage a matter of such concern, provided there is, in fact, a continuing study and a means of hearing those who are aggrieved.

Mr. SHERMAN: But you do not have to be a captive shipper to be paying the maximum rate. All you have to be is a non-competitive shipper. You do not have to go before the new Canadian transport commission, or this Committee, or anybody else, to be classified as a captive shipper. If you are a non-competitive shipper you will be paying class rates—maximum rates. Is that not correct?

How do you propose that you or I or anybody else is going to be able to analyze the impact of this maximum rate formula if we do not know what the cost to the railways is?

Mr. MOLGAT: The individual who is paying the rates is the one who will negotiate the railway company. If he is not satisfied with the rate that he gets from the railway company then he will turn around to an alternative use of transport—trucking—and get a rate.

Mr. SHERMAN: But if he is a non-competitive shipper—

Mr. MOLGAT: That is the point. How many non-competitive shippers are there in Manitoba? You know the situation in Manitoba, Mr. Sherman; you are a native of the province like I am. When you look at the map do you find very many?

Mr. SHERMAN: Well, I suggested in a motion submitted at an earlier Committee hearing at which you were not present—and I do not particularly want to make lengthy reference to it, because you may not be familiar with it—but some of us felt that we had made a case that certain non-competitive or captive shippers existed. The Minister suggested that they are not legitimate captive shippers, but let me ask you this: Will you not concede that, for example the whole potash industry in western Canada is a relatively new industry? Ten years ago who ever thought of the potash development?

Mr. MOLGAT: That is right, sir.

Mr. SHERMAN: Who is to say that, ten years from now, there is not going to be a new industry, a new development, a new discovery, and that the producer of that product, or that mineral, or that resource, or whatever it may be, is not a non-competitive or captive shipper?

The CHAIRMAN: Mr. Sherman, may I say that in the bill there is provision for review in just five years for this maximum rate, so that when you are speaking of terms please use the term “five years” rather than ten. Western Canada may not move all that fast, but we hope it does.

Mr. MOLGAT: To take potash as an example, it seems to me at the moment, sir, that there is a high degree of competition for the potash traffic, to the point where both railway lines are prepared to build spur lines into each potash deposit. In fact, have they not both built lines in a number of cases to the same deposits? Therefore, there is a competitive aspect there between the two lines.

Quite frankly we did this by sitting down and looking at the map of Manitoba, looking at the economic aspects of Manitoba, looking at where our development is in the province and saying to ourselves: “Now, who, in fact, is



going to be affected by this?" It is on this basis that we finally decided that the only recommendation we could make at this time was that the Committee watch very carefully what is going on, but not necessarily take a position at this point which is going to run counter to what is the effect here, which is to make the railways competitive.

Mr. SHERMAN: I will not pursue the matter to the point of tediousness, or boredom on the part of Committee, Mr. Molgat, but I think that you have perhaps stacked the deck in favour of the railways by adopting this position.

I accept your explanation at this stage, anyhow.

Mr. MOLGAT: I would be concerned if I had stacked the deck in favour of anyone.

Mr. SHERMAN: Well, I suggest that the railways do have the bargaining edge under this sort of umbrella protection which they enjoy and which stems from the ignorance in which this committee is going to be kept on the subject of railway variable costs. But that is something that will be examined again and again, and, as I say, I do not wish to submit the committee to any more lengthy discussion of that point than is already in store for it in the weeks ahead. Therefore, I will pass the questioning. That is all I have, Mr. Chairman.

Mr. NOWLAN: Mr. Molgat, in view of what you have explained to Mr. Sherman, then, it is your position that, so far as the province of Manitoba is concerned, in the present context of economic information of Manitoba this maximum rate formula is not necessary, is academic and should not be in the bill?

Mr. MOLGAT: No; I think it is proper to have it there, but I think that what is much more important, really, is the possibility of constant review, so that someone who does get caught in such a position, where he has no competition, can in fact appear and has an easy means of so doing. At the moment, quite frankly, I cannot see how many people in Manitoba are going to be affected. That is the problem.

Mr. NOWLAN: It is academic at the moment.

Mr. MOLGAT: At the moment, it seems that way. It may be that once the bill is in effect that is not so, but at the moment how many have come forward to you in this committee stating that they are captive shippers?

Mr. NOWLAN: Let me carry it one step further. If it turns out that it is not just academic and it does affect somebody—

Mr. MOLGAT: Then you show your figures.

Mr. NOWLAN: Yes; that was what I was going to come to. It is only correct and logical that this committee have figures.

Mr. MOLGAT: That is right.

Mr. JAMIESON: Mr. Chairman, I am sure the minister will think that I have an ulterior motive behind this question. We have heard a great deal, with a good deal of interest and concern, about the problems of the west, and we can see that the railways pose real difficulties for them, but in the eastern parts of the country if you substitute "coastal boat" for "branch line" you have a problem

that is very evident in my part of the world. Therefore, when it comes to branch line abandonment I am interested in coastal boat abandonment, and that means the building of roads. How exactly do you propose that these roads would be built? Would it become strictly a federal responsibility, where a rail line comes out to put a road in? What is your proposal in this connection?

Mr. MOLGAT: No; our suggestion is that this be a joint provincial and federal integration. Mr. Reid suggests that possibly the railways should be brought into it too. Perhaps there is room here.

Mr. JAMIESON: You do not see this as being a straight federal matter?

Mr. MOLGAT: No; because obviously there are other benefits in so far as the province is concerned, and I think it is fair that the province contributes because of the other benefits. When you propose putting in a hard surface highway in an area there are many others, apart from the grain shippers, who are concerned. At the moment the railway branch lines are used largely by grain shippers; much of the other produce now travels by truck. But if you are talking about road construction, then you affect far more than just the grain shippers. You affect the overall economic development of the area. Therefore, I think there must be a provincial contribution.

Mr. JAMIESON: In other words, it would be the Trans-Canada or a roads-to-resources program, or something like that.

Mr. MOLGAT: Yes; quite right.

Mr. JAMIESON: I think it is a very good idea.

Mr. ANDRAS: I have a question on just one aspect of this, Mr. Molgat, and may I congratulate you on the brief?

On page 11 your wording implies some concern and reservation about the Crowsnest rate. You say: "We are glad to see these rates are guaranteed in such unmistakable terms . . .", and then you go on to say ". . . and assume that the reference in clause 50 to the three-year study of the revenues and costs, of the railway . . . is only to determine whether the railways should be paid a subsidy or not . . ." Then you make a strong statement on the next page: "If, on the other hand, there is any suggestion that such a study could lead to cancellation of Crowsnest rates . . . and so forth. My understanding of the statement of the minister in the House was that there was certainly no doubt, and no reason for concern, about this. Perhaps the minister would like to take this opportunity to knock that one on the head?"

Mr. PICKERSGILL: I think Mr. Molgat was excusably thinking that there might possibly some day be a change of government!

Mr. ANDRAS: I would be surprised if the minister would think that I would think so.

Mr. MOLGAT: No; we recognize this, Mr. Andras, that the Crowsnest pass rates are statutory, but they can always be changed by any decision of the House and we merely wanted to re-emphasize the position in so far as the west is concerned, that, to us, they cannot be touched.

Mr. ANDRAS: You are saying, in effect, what the minister said.

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I was very interested in Mr. Molgat's statement that before there are any rail line abandonments that there should be mandatory hearings. You do not feel that there are enough safeguards built into this bill to protect the public interest in case the rail line is proposed to be abandoned by the railroads?

Mr. MOLGAT: No; it appears to us, in reading the bill, Mr. Howe, that, in fact, the first analysis to be made under the bill is purely of the costs of the railway line, without consideration of the other aspects. Then, if, on the basis of the costs, the commission decide that the line should be abandoned they may hear other reasons. They are not obliged to.

We think that you cannot take it strictly on the basis of railway costs. In fact, in many areas of Manitoba in particular, the railways could well proceed to remove a large number of the branch lines and still end up by getting the traffic. Because of the map in our province you will find that the southern area is largely served by the CPR; the northern area is largely served by the CNR. Therefore, if the CNR were to remove all the branch lines in the northern area they would still end up by getting the grain traffic. If you do it strictly on costs, I think you could possibly make a case for it, but if you are going to give a public service, with economic development, then you cannot.

Mr. HOWE (*Wellington-Huron*): I understand that, but would you not feel that it probably is the fact that it would not be necessary to hold a mandatory hearing, that if the application for abandonment was announced far enough in advance of the notices being sent out, as is done at the present time, to the communities, the township councils and things like that that might be involved, then if they want a hearing, or ask for a hearing, then there should be one. There might be cases where these hearings are not inexpensive, but you feel that there should be some little amendment in there to make it necessary for the notice to be posted?

Mr. PICKERSGILL: As a matter of fact, perhaps I could repeat this, although Mr. Howe has pretty well done it for me, I will say again what I said last night when the government of Saskatchewan presented its brief, I think I also said it the first time, when the pools were here, that I am not entirely satisfied that we have made it clear enough in the bill that if anyone wants to have a hearing there will be a hearing, and we are reviewing the language to make quite sure that what you suggest does happen; in other words, that there must be notices, and if anyone wants to have a hearing then it will be mandatory. But I am rather inclined to agree with you that if nobody wants to have a hearing we should not got to the expense of one.

Mr. HOWE (*Wellington-Huron*): This is what is happening now. I know of cases in my own area where there is talk of reduction of services, on trains to be removed, and nobody makes any objection so that there is no need—

Mr. PICKERSGILL: Yes, you are quite right; we do not want to put the taxpayers to unnecessary expense. But, on the other hand, we want to be sure, that if any interested party wants to be heard he has an opportunity.

Mr. MOLGAT: I think this would satisfy us. There is no point in having a hearing obviously if no one is concerned.



Mr. MACEWAN: On page 3 in regard to No. 1 "The Role of the Standing Committee on Transport and Communications"—

The CHAIRMAN: I would rather you stayed away from that, Mr. MacEwan. I have already questioned that. The role of the committee does not really come into the bill, although it is in the brief.

Mr. MACEWAN: At the bottom of the page the submission suggests that there should be a small expert staff. I think, Mr. Chairman, that is within our ambit. We have asked for additional help during the current hearings of this committee, and I think I would like to ask Mr. Molgat what he envisages by, as he says, "a small but expert staff"? I just wanted to ask Mr. Molgat what he envisaged by this type of staff—the work it would do, who would appoint it and who would pay it.

Mr. MOLGAT: My view would be that this committee would have four or five experts in the field of transportation, who would be strictly responsible to the committee itself; not responsible to the transport commission, not responsible to the Department of Transport, but responsible to the committee—your experts. This is not exactly a comparable situation, but in the case of your public accounts committee you have the Auditor General who is an independent individual and to whom, as I understand, at least, members of the House of Commons can go for information and get all the details that they want.

Comparing it to our situation in Manitoba and our own committees of the house, I find, as leader of the opposition, that the public accounts committee, for example, is really an ineffective committee because I do not have anyone I can turn to for information and for advice who is not a government employee. I would like to see, in so far as we are concerned in our committees, such staff as are not government staff to which a member could turn. I think that in your committee here, if you had four or five well qualified experts, your committee would be doing a more effective job.

Mr. MATHER: I was wondering, in considering the railway's claims for relief from branch lines, whether Mr. Molgat believes that these branch lines can be considered merely on their own local economic basis or rather would he agree with the philosophy that, in fairness to all concerned, the whole structure of the railway corporations, including their non-rail operations, should be taken into consideration?

Mr. MOLGAT: We have always held in the west that the non-rail operations certainly ought to be considered when you go into details like the freight rates, particularly when the horizontal increases were being put on, and on questions like the Crowsnest rates. These are factors.

I had not thought about them, frankly, in terms of straight branch line abandonment. It seems to me that there is room in the west for some rationalization of our branch lines. I do not think that we can take the position simply that there must be no abandonment. I think there are some cases of individual lines which are really a duplicaion.

Mr. MATHER: I agree with that, but if we agree to the idea of some rationalization affecting branch lines and services to the people concerned, would you think that it would be still proper to view the whole structure of the railways before we could come to what is a realistic basis of rationalization, or

abandonment? Do you think that you could just take the branch lines operating in their own spheres and make a decision on that basis, or would it not be more proper to try to view the whole structure of the railways and find out just how necessary it is to have these lines abandoned or otherwise?

Mr. MOLGAT: I certainly think that you cannot take a branch line in complete isolation, but it does contribute, by virtue of being there, to the balance of the railway operation, and obviously when you are discussing costs and so on, if the branch line was not there you cannot consider just that section of line by itself. You have also got to get to the main line. Therefore you cannot take it in complete isolation, admittedly, Mr. Mather; but I would think that, while this ought to be a background consideration, you also have to go back line by line where we have cases of lines just a very few miles apart, and that we could be providing these people with better transportation facilities and better services, provided that you do some other things. This is why my proposal of alternate road transport, I think, is an essential part of this operation.

Mr. MATHER: You would agree that the economic structure of the railways and their non-rail operations should be considered as a background element in this?

Mr. MOLGAT: The position I have always taken is that the railways got a very good deal when they came out west. They got a lot of land, and a lot of mineral rights, and that these factors were part and parcel of the bargain.

Mr. MATHER: The reason for their original existence was the rail lines, but that led to their acquisition of other property.

Mr. MOLGAT: That is right. These are tied together.

Mr. BALLARD: Mr. Molgat, I would like to congratulate you on your submission, particularly on three items that come to my mind; first, the statement that you made in connection with the abandonment of the Crowsnest pass rates; also your statement in connection with the abandonment of branch lines; and, most particularly, your suggestion that highways be built where branch lines have been abandoned.

I have just had a very brief chance to read your submission and I detected the difference in tone in your oral submission as compared to your written submission. I do not say this in a critical manner. . . I want to wait to see who is in the Chair before I put the question!

The ACTING CHAIRMAN (*Mr. McWilliam*): I will give you more latitude than the Chairman.

Mr. BALLARD: I was saying, Mr. Chairman, that I detected a difference in tone in the written submission and the oral submission of Mr. Molgat, because in his written submission he has made several suggestions with regard to the responsibilities of this committee. I want to ask my question from the other side, and ask him if his submission in any way is intended to diminish the responsibilities of the transportation commission as envisaged by the act?

The CHAIRMAN: He has already put this in his brief, Mr. Ballard.

Mr. BALLARD: In other words, are you suggesting that this committee take over some of the responsibilities of the transportation commission?

Mr. MOLGAT: No; I think I did say in the brief that my comments were not an indication of lack of confidence in the transportation commission. I have no idea who is going to be on the transportation commission. I realize that there is the possibility of duplication, but the risks in duplication are, in my opinion, well worth the advantages which would be obtained by having your committee which is, after all, representative of all of Canada, because you have members here from every province, and of every shade of political opinion—that there would be advantages in having this committee, in a sense, somewhat independent from the transportation commission, and not tied to any mode of transportation, or any transportation background, but more independent in its views.

It is not meant as a criticism of the commission. I do not know who is going to be on the commission.

The CHAIRMAN: That is all I am allowing you in that field, Mr. Ballard.

Mr. BALLARD: In other words, Mr. Molgat, you would suggest that it would be quite proper to reverse the trend that has been going on, where we try to take the question of transportation problems out of politics, and bring the political factor back into the decision-making on questions which do affect railways and other types of transportation?

Mr. MOLGAT: I do not want it to become a matter of partisan politics, but I think it is, after all, a matter of national concern and quite obviously of political decision.

The CHAIRMAN: There is no other way it could happen, because of this committee.

Mr. Ballard, I am really ruling out that line of questioning. I do not think I should allow you a question which I did not allow from other members of the committee.

Mr. BALLARD: I just wanted to point out to Mr. Molgat that this committee is non-political.

The CHAIRMAN: Of course. Are there any other questions?

Mr. PASCOE: I just want to follow up briefly with regard to branch lines. I did not make a full note on it, but I think Mr. Molgat said something about the reduced need for wheat delivery quotas.

Does he envisage the using of the wheat board's present efforts of equalization of deliveries at all points, and does he see the possibility of larger deliveries at points most easily served by railways?

Mr. MOLGAT: I think what I was referring to there was that it was because there has been an improvement in the sales. What is happening, certainly in many parts of Manitoba, where there was land which was not being fully used—it was bushland—is that it is now being used for crops. Some land which had been previously turned over to pasture is going back into straight crop land. Therefore, the deliveries are increasing.

What was your other question?

Mr. PASCOE: Do you think there should be equalization, or do you see a plan whereby there would be larger deliveries at points more easily served by the railways?



Mr. MOLGAT: I think that what is happening, so far as Manitoba is concerned, is that the farmers themselves are choosing to go to a point where there is competition. In many cases where there is only one elevator company represented they may bypass that point and go to another one which may, in some cases, be further away, but where they are in a competitive position.

There is a trend towards the building of larger elevators with better facilities. This is coming along. I think it has been held back by the fact that there was uncertainty about what would happen on the matter of branch lines.

Mr. PASCOE: But do you still think that there should be equalization at all points?

Mr. MOLGAT: I suppose it would be desirable if it could be done, but I do not think it is going to happen all at once.

The CHAIRMAN: Gentlemen, I want to thank Mr. Molgat for coming and for his very helpful presentation. The parts that I thought should not be entered into were of great interest to some of our Committee members, it seems, but these are the woes of a Chairman.

Before we adjourn, I wish to bring to your attention the brief of Wabush Mines which was presented yesterday. Mr. Harris, the chartered accountant of that firm, did undertake to table with this Committee an estimate of the fixed rate under proposed section 336, for the movement of iron ore on the QNS&L. I would ask for a motion that these be printed, following the evidence of the Wabush Mines, in our Minutes of Evidence and Proceedings.

Mr. CANTELON: I so move.

Mr. LANGLOIS: I second the motion.

Motion agreed to.

The CHAIRMAN: As I announced to this Committee earlier, it was the intention to start the clause-by-clause study on November 17. I have just received a telephone call from Mr. Mauro, counsel for the government of Manitoba, and we have arrived at a tentative date for his appearance. Their brief is prepared, but it will have to be approved by their cabinet. The tentative date is set for Thursday, November 17 at 9.30 a.m. I have advised Mr. Mauro that we will sit all day, in the hope that we can finalize their brief and their evidence by Thursday evening, and, if not, that he will also be heard on Friday morning. I believe that tentative date has been set, subject to hotel accommodation being obtained. I would think that after November 16, hotel accommodation will be more plentiful. Had it not been for November 14, 15 and 16, when we are not sitting, we would have heard the brief earlier, but as of this moment, on Thursday, November 17 at 9.30 a.m. we will have the brief of the Manitoba government.

We stand adjourned until tomorrow morning at 9.30 a.m., when we will hear a short brief of the Canada Steamship Lines, the Winnipeg Chamber of Commerce, and, in the afternoon, the Canadian Trucking Association.

## APPENDIX A-24

Submission  
of  
THE LIBERAL PARTY OF MANITOBA  
to the Committee  
ON TRANSPORT AND COMMUNICATIONS  
OF THE HOUSE OF COMMONS  
Concerning  
Bill C 231

The Liberal Party of Manitoba welcomes the chance to express its views to your Committee on the proposed new National Transportation Act contained in Bill C 231. We recognize that it is the outcome of many years of searching inquiry into one of Canada's greatest problems—the maintenance of a healthy and vigorous Canadian transportation system.

Located as we are at the heart of the continent, it is obvious that transportation policies are of even greater concern to Manitobans than to Canadians as a whole.

We congratulate the Government of Canada for producing legislation which will permit the different modes of transportation to operate with greater freedom from regulation than before, and which at the same time ensures that the public interest remains uppermost.

We recognize that the Bill encompasses almost all transportation fields in Canada, but for this particular brief, I want to address myself mainly to the aspects of the Bill dealing with railway matters.

This obviously does not mean that we are not concerned about other forms of transport. The comments you have heard from Manitoba in the past regarding air transport and overhaul bases in particular, will, I am sure, convince you of that.

I would like to say that we welcomed the recent announcement regarding a regional air policy. We consider this long awaited policy a major step forward and approve of the principles announced. Again because of our geographic location, we realize the importance to Manitoba in particular. We hope that the principles can now be translated into policy and action at the earliest possible date.

Fears have been expressed that by granting the railways more freedom to compete for business, the other modes of transportation will be made to suffer. Concern has been indicated that because of their sheer size and economic power, the railways will become the overwhelming giant of Canadian transportation while the other modes decline. It is argued accordingly that the proposed freedom to compete should not be permitted.

The Liberal Party of Manitoba does not accept any such argument. We cannot forget that one of the main principles of the legislation is the orderly

reduction of the huge subsidies that continue to be paid out of the Treasury to the railways.

And we acknowledge that the legislation is a sincere attempt, once and for all, to overcome the recurring impact of horizontal percentage increases in freight rates.

For years, Manitoba was affected as much as any region of Canada by this method of dealing with the cost of transportation. We complained, and with justification, but we welcome legislation designed to relegate horizontal percentage increases to history. In welcoming such legislation, we are keeping in mind that everything done under it must ultimately satisfy the tests laid down by the public interest.

The concept embodied in this Bill is in some ways an experiment. It calls for almost complete removal of regulation from the Canadian transportation system except where the public interest or monopoly situation demands that it remain. We intend to touch on three specific aspects of that public interest later in this brief and to suggest changes which will be beneficial. Before doing so we wish to draw to your attention an important improvement in principle which we believe should be adopted.

#### I THE ROLE OF THE STANDING COMMITTEE ON TRANSPORT & COMMUNICATIONS

We recommended that the Committee on Transport and Communications—your Committee—be strengthened and augmented.

We would like to see this Committee sit and work continuously throughout the year.

We think it should be given a small but expert staff to be employed full time independently of the Department of Transport and the new Canadian Transport Commission.

We recognize the possibility of duplication of the Authority and of the work of the Committee and of the new "Canadian Transport Commission" or the Department of Transport, but we believe much of this could be overcome by setting out terms of reference for each body. In any case, in view of the *extreme importance of transportation to Canadian development and independence*, we believe that the advantages of a dynamic, active, informed Committee of the House would far outweigh any disadvantages of possible duplication. There have been, and undoubtedly there will continue to be, great problems in transportation in Canada, but there is also a great challenge—

a challenge to members of this Committee to bring new, creative thinking to a basic Canadian problem, to our original Canadian problem of binding into one country a mixture of regions and people stretching for 4,000 miles from Newfoundland to Vancouver Island.

I visualize your Committee being the continuing parliamentary authority on all questions of transport. The Standing Committee would be doing its own research into problems of Canadian transportation.



There are many fields of study and activity outside the scope of the Canadian Transportation Commission. The Standing Committee could be investigating and proposing long range solutions in many broad areas—

- the problems of regional development in relation to long-term transportation.
- the future manpower requirements in the transportation industry and how the costs will be covered.
- the modernization of our transport system and equipment which includes endless possible considerations such as commuter services and urban development, cooperation between various companies and modes of transport, and many others. A precise example of a type of study is that of joint yards and services. In the field of air transport, we have accepted the principle that the airport services are provided by a separate agency and all carriers use the joint terminal. Would this same principle applied to railways in particular, or possibly trucking, provide savings and improved efficiency?

Your Committee would have under continuous review, the effect in all its aspects of the new and different approach embodied in the Bill. In this connection the Committee would hold hearings, to which could be summoned transportation people, representatives of the Commission and the Department of Transport and all others who could assist the Committee in resolving transportation questions. It could hear appeals and submissions from all regions of Canada, and from individuals.

Even with the changes proposed by the Bill, the Treasury will remain committed for large sums for many years. Indeed, the Bill itself, while providing for progressive reduction of the general subsidies now being paid, envisages new payments in the area of uneconomic passenger services and the phasing out of certain branch lines, to mention only two. The studies and inquiries of the Committee, as we suggest it should be constituted, would be of enormous assistance to Parliament in making decisions on such questions.

Such a committee might also undertake to assist in a review of the branch lines that have been "frozen" for ten years. As each new development takes place it should be evaluated in terms of the ultimate decision whether to abandon any branch line. A line that today appears ripe for abandonment may not be so in ten years, after careful study of such matters as projected grain traffic, or a recent mineral "find" such as potash. (See Appendix "A" and "B" attached). Here again, the Committee could be of great assistance to Parliament as well as being a group to which interested citizens could present their best thinking to help find realistic answers to difficult questions.

It has already been stated that when the Bill becomes law, an experiment will have begun. To be successful, I believe this experiment will have to be under constant scrutiny.

One immediate result of the new legislation will be that the freight rate structure built up over many years, and under the old regulatory controls, will begin to change. Some of the effect of this may be adverse. For example, a trend toward more, rather than less centralization of industrial development, may take place, based on a scale of transportation charges more favourable to central

Canada than is at present the case. Manitoba would be concerned about such a trend and would want assurance that its proposals for overcoming the detrimental effects of such a trend on its economy were listened to and acted upon. It could go to the newly constituted Committee.

Further down the scale but of just as much importance, the new freedom to compete is bound to work some injustice on individuals. Smaller businesses and industries are particularly vulnerable to unequal revisions in the cost of their transportation and as the present rules against unjust discrimination as between shippers are to be abolished, we fear that the shipper whose interests are adversely affected will have no easily attainable means of redress.

If a business has the cost of moving its raw materials into its plant, or its finished product to the market, raised, while its competitor down the street does not, the result can be serious, perhaps even disastrous. And such a business may not be able to solve the problem by turning to another mode of transportation. Competition is not just a matter of rates. The truck service may not be as frequent or as fast as that offered by the railway. Or if the business has access to water transportation, the ability of the water carrier to move the raw materials or the finished product may be incompatible with market demands. Or the business may find that to buy its own means of transportation is beyond its financial means.

Where then does it turn for relief? In some few cases, clause 44 of the Bill may provide the answer. But unless the appellant can satisfy the Commission that his case involves the public interest, his application for leave to appeal will be denied. The House Committee would be a forum where the small business man can go quickly and cheaply, without the expense and inevitable delay of an appeal to the Commission.

The proposed Committee, as we see it, would in a proper case, make its own investigation and persuade the Commission to reconsider its decision on the appellant's case or convince the Commission that however small the business may be, the problem is *really* a matter of public interest.

Our concern in this area should not be taken to mean we lack confidence in the new Commission. However, we are afraid, that at least for the next few years, the Commission will be mainly concerned with the big problems and the large issues that the freedom granted by the Bill will create. We do not want to see the ordinary citizen forgotten. We want him to have a place to which he can go, as of right, where he can state his case and have his remedy, even though the broad public interest may not be directly involved. We visualize the proposed Committee as carrying out this function.

## II BRANCH LINE ABANDONMENT

While the Bill contains important and far-reaching changes in the transportation law of Canada, probably the most significant are the sections dealing with branch line abandonment. The Liberal Party of Manitoba studied Bill No. C-120 which was withdrawn some time ago, and we wish to state that the present Bill is a vast improvement over the earlier Bill in the matter of the branch line problem. However, we are strongly of the opinion that the machinery for

determining whether any branch line is to be abandoned is still deficient, and we urge the Committee to recommend the necessary amendments to make good this deficiency.

The way the Bill now reads, there is the danger that the decision to abandon a branch line may be made by the Commission after it looks at only the costs and revenues of the railway relative to the particular branch line, and that the other important factors grouped under the general heading of the public interest merely come under consideration when it is being decided how long it should be before the branch line is abandoned. We do not think this is good enough.

Anyone familiar with Western Canada knows that the transportation of grain, to name only one commodity, is dependent upon the existing network of roads and railway branch lines. The removal of one branch line on the basis of excess of railway cost over railway revenue, without taking into consideration the needs of the region affected as well as the requirements of the communities along the line, could have very serious adverse economic effects.

The way the Bill is now written, the Commission is not even required to hold public hearings in connection with any branch line abandonment application. Hearings are only to be held in the discretion of the Commission if this appears desirable, and then only after the basic decision whether to abandon the line, has been made. In such circumstances, even if hearings were held, the desire of the people affected to make known their side of the story would be largely frustrated, and indeed one wonders why there would be any use in holding hearings at all.

*The Liberal Party of Manitoba urges most strongly that the Bill be revised to make it absolutely clear that no part of the process of deciding whether a branch line should be abandoned, should be allowed to take place without having a hearing at which all persons affected or interested are entitled to make their views known, and at which the costs and revenues of the railways attributable to the branch line in question are open to scrutiny and subject to question. Only in this way will the Commission be able to discharge its function properly, because in this way it will reach its conclusions based on all of the important factors, not just some of them.*

We would also make another suggestion which would assist the Commission to overcome one of the great obstacles to any of the branch line rationalization program. We refer to the fear of many people located along branch lines that if they are permitted to be abandoned, no adequate alternative means of transportation will be provided.

*In many cases, the provision of a hard-surfaced all-weather highway from the area formerly served by the abandoned branch line to major loading points on continuing lines or connecting with existing trunk highways, would overcome the problem, and we strongly recommend that the Federal Government make it a matter of policy to share in the cost of constructing such roads in cooperation with the Provinces.*

We believe that a Federal Government policy of cost-sharing on such replacement roads would greatly reduce the objections to some proposed abandonments and would further assist in the general economic development of many areas.



We welcome the announcement of the Government that the bulk of the branch lines in Western Canada will be frozen until 1975, and that no abandonment applications in respect of them will be entertained during that period. We hope that during the remaining nine years, a thorough study will be made of the requirements of the regions and communities served by these lines and of all the new factors arising, so that when abandonment applications are heard, all of the factors will be readily available to the Commission, and that there will be no appreciable delay between the abandonment of any line and the provision of alternative facilities.

As a matter of fact, the strengthened Committee on Transport and Communications which we are recommending, might well undertake as one of its major projects, such a study, so that by 1975, Parliament will be fully aware of the economic and social impact of the redrawing of the transportation map of Western Canada that will likely then begin to take place.

### III CROW'S NEST RATES

Clause 50 of the Bill guarantees the continuance of the Crow's Nest Rates on grain being exported out of Western Canada, either through the Lakehead or Pacific Coast ports. We are glad to see these rates are guaranteed in such unmistakable terms, and assume that the reference in clause 50 to the three-year study of the revenues and costs of the railways, with reference to the carriage of grain and grain products, is only to determine whether the railways should be paid a subsidy or not.

*If, on the other hand, there is any suggestion that such a study could lead to cancellation of Crow's Nest Rates, then the Liberal Party of Manitoba would oppose any such move with all the resources at its command.*

### IV MAXIMUM RATES

We recognize that if the railways are to have the freedom to compete, they must compete with other modes of transportation and must have the freedom to set rates that those other modes possess. We also recognize that the provisions in the Bill dealing with maximum rates are an attempt to protect the so-called captive shipper, who has no alternative competitive modes of transportation to which he can turn if he cannot make a satisfactory bargain with the railways.

As we have already stated, there are bound to be individual cases of injustice or hardship, and we hope that the maximum rate formula laid down by the Bill will be sufficient to protect the captive shipper. We do not think it either constructive or helpful to suggest more rigid controls in this area, but we do think that the provision requiring the Transportation Commission to report on the operation of the formula after five years, inadequate. While it is true that the first five years will likely see the greatest number of difficulties, regional or individual problems or inequalities, as a result of the new freight rate freedom will likely be most severely felt during that same period of time.

Equally, the results of the abolition of the principle of unjust discrimination will be most noticeable during the first years after the Bill has come into force.

*We suggest that it be made abundantly clear that the Commission report more often than after the first five years, preferably annually.*

We do not think it necessary for the Commission to hold any public hearings on the operation of the section until after five years have expired, but *we think it ought to be open to the strengthened Committee on Transport and Communications that we are recommending, to call upon the Commission to report to it annually on the effect of the maximum rate control provisions and the effect of unjust discrimination, and at the same time to afford people affected by these provisions the right to appear before it as well.*

Mention has already been made to the concern that Manitoba would have over any trend in the freight rate structure toward favouring further industrial development in Central Canada, at the expense of the Provinces lying to the east and the west.

Undeniably, the level of transportation cost will always be one of the main factors influencing an industry in deciding whether to locate a new plant or not. Any regional program of industrial development has to take account of this fact, and when the region is at a distance from the markets, every effort has to be made to keep transportation costs at a minimum.

We recognize that all of the modes of transportation are interested in developing new business, including business that may arise out of any such program of industrial development, but at the same time we are concerned about the possibility that the power being given to the railways to set their transportation charges, could be exercised with too little regard being paid to the need for continuing industrial development in areas like Manitoba.

We want assurance that if such a problem should occur, there is an authority to which we can appeal, and we visualize the recommended Committee on Transport and Communications as being a body to which we could go.

## APPENDIX "A"

## WHEAT MARKETINGS—WESTERN CANADA

<i>Crop Year</i>	<i>Bushels</i>
1940-41 .....	456,660,058
1941-42 .....	227,121,473
1942-43 .....	267,340,161
1943-44 .....	329,322,220
1944-45 .....	351,384,318
1945-46 .....	237,299,606
1946-47 .....	334,617,560
1947-48 .....	246,601,915
1948-49 .....	293,986,770
1949-50 .....	319,570,690
1950-51 .....	367,845,304
1951-52 .....	455,362,092
1952-53 .....	535,988,508
1953-54 .....	396,960,609
1954-55 .....	319,779,683
1955-56 .....	352,975,212
1956-57 .....	362,453,964
1957-58 .....	378,192,109
1958-59 .....	367,722,598
1959-60 .....	378,513,955
1960-61 .....	396,211,595
1961-62 .....	305,345,475
1962-63 .....	474,293,069
1963-64 .....	568,620,219
1964-65 .....	524,514,730
1965-66 .....	567,956,277

(Source: Board of Grain Commissioners)



## APPENDIX "B"

## PRODUCTION OF POTASH IN CANADA

<i>Year</i>	<i>Tons</i>
1959 .....	46,500
(no figures available for 1960 & 1961)	
1962 .....	150,000
1963 .....	626,860
1964 .....	858,351
1965 .....	1,430,000
Jan. 1/66 to June 30/66 .....	964,895

(Source: Dominion Bureau of Statistics)

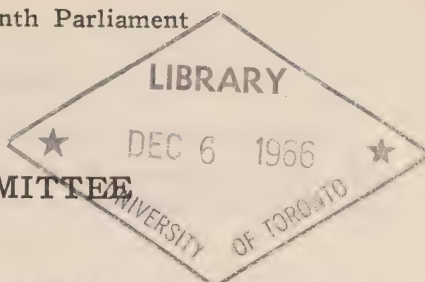
HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON



**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 34

THURSDAY, NOVEMBER 3, 1966

Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

*Representing the Canada Steamship Lines:* Mr. Hazen Hansard, Q.C., Counsel; Mr. R. J. Paquin, Freight Traffic Manager. *From the Windsor Chamber of Commerce, Freight Traffic Committee:* Mr. John McKeown, Secretary; Mr. Robert Merrifield, Vice-Chairman, Mr. Harry Ringrose, Member; Mr. John Magee, General Manager, *Canadian Trucking Associations Inc.*; Dr. K. W. Studnicki-Gizbert, Associate Professor of Economics, York University; Mr. Marius Gendreau, Assistant General Manager, *Canadian Trucking Associations Inc.*

ROGER DUHAMEL, F.R.S.C.

QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

and

Mr. Allmand,	Mr. Jamieson,	Mr. O'Keefe,
Mr. Andras,	Mr. Langlois	Mr. Olson,
Mr. Bell ( <i>Saint</i>	( <i>Chicoutimi</i> ),	Mr. Pascoe,
<i>John-Albert</i> ),	Mr. Legault,	Mr. Reid,
Mr. Cantelon,	Mr. MacEwan,	Mrs. Rideout,
Mr. Deachman,	Mr. Mather,	Mr. Sherman,
<sup>1</sup> Mr. Groos,	Mr. Martin ( <i>Timmins</i> ),	Mr. Southam,
Mr. Horner ( <i>Acadia</i> ),	Mr. McWilliam,	Mr. Stafford—(25).
Mr. Howe ( <i>Wellington-Huron</i> ),	Mr. Nowlan,	

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee*

<sup>1</sup> Replaced Mr. Côté on November 3, 1966.



ORDER OF REFERENCE

THURSDAY, November 3, 1966.

*Ordered*,—That the name of Mr. Groos be substituted for that of Mr. Côté (*Nicolet-Yamaska*) on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*



## MINUTES OF PROCEEDINGS

THURSDAY, November 3, 1966.

(57)

The Standing Committee on Transport and Communications met this day at 9.40 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Côté (*Nicolet-Yamaska*), Deachman, Groos, O'Keefe, Jamieson, Legault, Macaluso, Martin (*Timmings*), Pascoe, Southam, Stafford (13).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport and Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance: Representing the Canada Steamship Lines:* Mr. Hazen Hansard, Q.C., Counsel; Mr. R. J. Paquin, Freight Traffic Manager. *From the Windsor Chamber of Commerce, Freight Traffic Committee:* Mr. John McKeown, Secretary; Mr. Robert Merrifield, Vice-Chairman, Mr. Harry Ringrose, Member.

The Chairman introduced Dr. Donald Armstrong to the members and explained that he had been retained as Economic Advisor of the Transport and Communications Committee.

On motion of Mr. Pascoe, seconded by Mr. O'Keefe,

*Resolved,*—That the Canada Steamship Lines' brief be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-25*).

The Chairman invited the witnesses from the Canada Steamship Lines to summarize their brief and they were questioned thereon.

The Chairman thanked the C.S.L. witnesses and introduced the witnesses from the Windsor Chamber of Commerce and invited Mr. McKeown to read his brief.

It was moved by Mr. Deachman, seconded by Mr. Southam and resolved that the mileage table be taken as having been read into the brief.

There being no further questions of the witnesses, at 10.35 o'clock a.m., the Committee adjourned until 3.30 o'clock p.m. this date.

## AFTERNOON SITTING

(58)

The Standing Committee met this date at 3.35 o'clock p.m., the Chairman, Mr. Macaluso, presiding.



*Members present:* Mrs. Rideout and Messrs. Allmand, Andras, Cantelon, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), O'Keefe, Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, MacEwan, Martin (*Timmins*), McWilliam, Pascoe, Reid, Sherman, Southam, Stafford (20).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Honourable John Turner, Minister without Portfolio; Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance:* Mr. John Magee, General Manager, Canadian Trucking Associations Inc.; Dr. K. W. Studnicki-Gizbert, Associate Professor of Economics, York University; Mr. Marius Gendreau, Assistant General Manager, Canadian Trucking Associations Inc.

On motion of Mr. Southam, seconded by Mr. Stafford,

*Resolved,*—That the brief of the Canadian Trucking Associations Inc. be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-26*).

The Chairman introduced the witnesses and invited Mr. Magee to read a summary of the brief.

At the conclusion of the summary, the Honourable J. W. Pickersgill commented briefly on submission of the Canadian Trucking Associations Inc. The Chairman then invited the Members to examine the witnesses.

And the examination of the witnesses being concluded, the Chairman thanked the witnesses for their presentation. The meeting adjourned at 6.00 o'clock p.m. until 9.30 o'clock a.m., Friday, November 4, 1966.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 3, 1966

The CHAIRMAN: Gentlemen we have a quorum. First of all, I would like to introduce to the members of the Committee, Dr. Armstrong whom we have retained as our special consultant. Dr. Armstrong was born in Nanton, Alberta, received his B.A. and B. Comm. in Alberta, his Ph.D at McGill and had one year of doctoral study in Manchester. He has had royal commission experience, as a member of the Borden and Gordon Commissions, revision of the Newfoundland terms, the MacPherson Royal Commission and the Commission on Bilingualism and Biculturalism. He is a business consultant to a large number of firms, trade associations and all three levels of government and a member of various publications, including the Quebec Economic Council and the founding director of the graduate school of business at McGill University. We are very happy to have you with us today, Dr. Armstrong.

We have, this morning, the submission of the Canada Steamship Lines Limited. To my immediate right is Mr. Hazen Hansard, Q.C., counsel for Canada Steamship Lines Limited, Mr. R. J. Paquin, freight traffic manager. Mr. Keating is not with us this morning.

May I have a motion please that we print the brief as an appendix to our evidence.

Mr. PASCOE: I so move.

Mr. O'KEEFE: I second the motion.

Motion agreed to.

Mr. HAZEN HANSARD Q.C. (*Counsel, Canada Steamship Lines*): Mr. Chairman and hon. members of the Committee, the point that this brief covers is a very short one. The only reason the brief is 6 pages is that there is so little history behind it. We are only making a submission in respect of section 469 of Bill No. C-231 and that, as the Committee will be aware, is the provision whereby there is a sort of tapering off of subsidies payable hitherto to the transportation companies, subject to certain orders of the Board of Transport Commissioners.

I think I will make my point immediately—and, I understand, Mr. Chairman, you do not wish me to read the brief, because it has been distributed—by referring to the opening wording of section 469 and, if you will be good enough to look at that, you will see that it starts with subsection (1) in this section,

- (a) "eligible companies" means the railway companies under the jurisdiction of parliament that are subject to Order No. 93600 of the Board of Transport Commissioners for Canada—

I will stop there if I may. You will note "means the railway companies under the jurisdiction of parliament." If you will be good enough to refer to paragraph 9 of our submission, you will see that we have listed there the transportation companies that have hitherto been affected by these subsidies and, you will observe that in the list of some 13 companies, all of them but one are railway companies.

First of all, there are the two transcontinental Canadian lines and then there are a number of other railways affected, including a number of American railway companies and then the sixth company down is the company that I appear for, Canada Steamship Lines Limited which is, of course, not a railway company. It seems to me that I could make myself best understood by explaining how they got into that business.

The Canada Steamship Lines operate on the great lakes from the lakehead to Montreal and below, but they operate between Fort William and Port Arthur and Montreal water services that are known as package freight services and, they also have their bulk wheat. One difference between those two is that one is subject to the regulation of parliament and of the Board of Transport Commissioners as to rates and other matters under the Transport Act. In connection with their operations—and this has a long, long history—the Canada Steamship Lines operate in conjunction with the Canadian National Railways, two services that are referred to in the trade, if I may use the expression, as rail lake and rail services and lake and rail services or, in the Transport Board's orders, with which we are concerned in this section, instead of lakes, they would use the word water and, I have used that in our submission, because that is the language of this Order No. 93600.

These are joint through rates that are published by and participated in by the railroad and the water line. They date back—as far as the rail lake and rail are concerned—I understand to the time before the through transcontinental lines had traversed more than Ontario and traffic moved rail, lake and rail. They have been preserved ever since and, they represent an alternative route whereby shippers may, if they wish, obtain somewhat lower rates which reflect the participation of the water line in the joint haul.

I do not think I need to say here that it is invariably the case that water rates, because of the disadvantages that water transport entails, slower and so on, are always lower than the railways, but the fact of the matter is that these two, rail lake and rail rates and lake and rail rates or, rail water-rail rates are an alternative service participated in both by the railroads, the CNR in our case and they compete with the all-rail and there is a definite relationship that over the years has been established between rail and water rates and a scale of differentials, so-called, which is a scale of the difference between the rail and the water that has been in existence for many, many years. The Committee will see that in the orders of the board to which reference is made both in the section of the bill I am talking about, and in our submission, reference is made to these differentials, and there is a direction in the first order, which is the one establishing the 17 per cent increase, that the differential relationship between the all-rail, the rail-water-rail and the water-rail rates be maintained.



In the board's orders and in the Freight Rates Reduction Act providing for a hold-down in these rates, the companies affected in this way are all referred to as either "companies" or "transportation companies" and, particularly in the Freight Rates Reduction Act, "company" is defined as meaning a transportation company. Of course, "transportation company" takes us into account, because we are a transportation company, but we happen to be a steamship company rather than a railway company, and it takes the railway companies into account, and that is why that expression was used there.

When we come to the present bill and this is the sole point in question, we find that of all these companies we are the only one left out because the draftsman has selected the expression "railway company", which is a narrower expression than "transportation company". Our request is that the section be amended to read "transportation company" instead of "railway company" wherever that appears.

That is the sole purpose of this submission. I think it should be said that because of the competitive relationship between these two types of rates which the differentials represent, when freight rates come down water rates have to come down. By reason of the forces of competition, these differentials which have been established over the years—while it is a matter of sense and it does not always work out to the last fraction—represent the competitive difference between the two classes of service. When the all-rail rates come down, the water rates come down, and vice versa. In other words, they are tied together as they compete with one another with a different form of transportation.

The other point I would like to make to the Committee is that included in the list of railway companies, of course, is the Canadian Pacific Railway Company and it has, and still maintains, a rail-lake-rail service. It does not have a separate water carrier participating in that service; it does it with its own vessels. But the same competitive rates are published, and because it is a railway company it is included in this definition in the bill; whereas, because we are a steamship company we are excluded. Of course, here are two identical services, two identical types of rates, one of which under this bill as drafted would profit—I do not think that is the right word—be covered by the section and the other would not, and we submit that that cannot be the intention as it would put us in an unfair competitive position. Even if that were not the case, even if the Canadian Pacific did not have this service, we still operate a competitive service, and every time our competitors get an advantage in respect of their rates that we do not get, we are discriminated against. And that is the burden of our song, Mr. Chairman. I do not think there is anything more I need say in opening. If anybody wants to ask me any questions I would be delighted to try to answer them.

The CHAIRMAN: Thank you, Mr. Hansard. I do not know that there are any questions. It is just a matter of amending a term in one section. Mr. Martin?

Mr. MARTIN (*Timmins*): I might have misunderstood you. As I recall, you said that you would expect that if the rail rates come down, the water rates come down, and vice versa. Is the differential just for the sake of the differential, or does the cost and other factors enter into it?

Mr. HANSARD: The differential reflects the costs, perhaps. That is the way I should have expressed it. It reflects the difference (a) in the cost and (b) in the quality of the service, as you will see. If you run a water line you have to charge less if you want to attract the traffic, because it takes you longer to get the goods from point "A" to point "B".

These services run, as far as Canada Steamships and Canadian National are concerned, from Port Arthur to Point Edwards, which is Sarnia. That is the distance covered by the water haul. The railway handles it east and west, you see, so that is why it is called rail-lake-rail. The reason the rate is lower, I suppose, is partly costs, but I think it is more the quality of the service; that is to say, all-rail can do that trip quicker than the water can, but for people who are not in that much of a hurry there is an advantage to be gained by taking the slower and cheaper route. Does that answer your question, sir?

Mr. MARTIN (*Timmings*): Not completely. Again, I might have got the wrong impression, but from your remarks I got the impression that the only time that the rates differed was when one moved and the other met it either up or down.

Mr. HANSARD: By "moved" do you mean when there is a change in the all-rail rates, for instance?

Mr. MARTIN (*Timmings*): Yes.

Mr. HANSARD: Normally speaking, that is the case, and this has been the situation under control by the transport board. The rates have been related one to the other by these differentials, in their orders. For instance, if the rail rate went up and we did not go up, we would attract more than our fair share of the traffic away from the rails, or the other way around. Over the years there has been established this differential relationship. I think they are referred to as "standard scale of differentials" in the order, and that reflects the difference of all factors, between the two services.

Mr. MARTIN (*Timmings*): In effect, then, one cannot move without the other?

Mr. HANSARD: That has been substantially so under the control of the transport board. That is correct.

Mr. PASCOE: Mr. Chairman, the witness stated something about it being slower by water than by rail. Is it very much slower?

Mr. HANSARD: Now you are getting me a little out of my depth. At one time it was very substantially slower. I do not think it is as slow now. One of the things the Canada Steamship Lines has had to do is to modernize its package freight fleet, but there is a substantial difference in time. I have not got the schedules here, but there is no question about that. And there are other things, too. There is transshipment, and all sorts of things involved in it.

Mr. PASCOE: Would you have any idea of the difference?

Mr. R. J. PAQUIN (*Freight Traffic Manager, Canada Steamship Lines*): Take for example a shipment from Toronto to Winnipeg. It might be 48 hours behind the all-rail—two days.

Mr. PASCOE: Could you give the Committee any idea of the principal cargo that you carry?

Mr. HANSARD: I would ask Mr. Paquin to answer that, if I may. He is more familiar with that than I.

Mr. PAQUIN: Do you want us to supply a list?

Mr. PASCOE: No, I just want to know generally what it is.

Mr. PAQUIN: Well, generally, it is all types of traffic, general cargo. I do not think there is one big block of traffic except, possibly, steel. Steel is a big item from the mills in Hamilton to all destinations in western Canada.

Mr. PASCOE: What about grain and canned goods? What about wheat?

Mr. PAQUIN: Wheat does not come under the control. Wheat is on a bulk boat. We are talking package traffic freight now.

Mr. PASCOE: Well, do you carry any passengers at all?

Mr. PAQUIN: None, at all.

Mr. PASCOE: I think that is all. I would prefer to ask the Minister if this wording was by design at all.

Hon. J. W. PICKERSGILL (*Minister of Transport*): I am not sure that I gave personally that much detailed attention to the actual drafting that it would be wise for me to answer that question. I would point out, of course, that there are in my view two sides to this question. In the first place, at present the rates of Canada Steamships are fixed by law just as the rates of the railways are. Once this bill is passed they will no longer be fixed by law. They will be perfectly free to set any rates they like. Now, the only reason they are getting this compensation now is that their rates are frozen by law.

Mr. PASCOE: These frozen rates are under the Freight Rates Reduction Act?

Mr. PICKERSGILL: Yes. They are being paid, as the railways are, for keeping those rates frozen. Now, on the other hand, of course, the railways will be free, once this bill is passed, to change their rates, too, and, therefore, you may say: "Why should the railways be compensated through the transitional grants and Canada Steamships not share in that compensation for what might be called 'the tapering off' period?" Now, this is a question that I am quite prepared to look at again, but I am not quite satisfied it was just an oversight.

Mr. HANSARD: Might I just say one word to you, Mr. Pickersgill, in reply. I am not suggesting that the wording was by design; however I think I did use the expression oversight in my brief because I was expressing, what shall we say, parliamentary immunity, perhaps. The situation is clearly this: these rates, whether recommended by the transport board or not, are competitive one with the other. We have been held down just as the railways have and we have also participated in the voluntary holding down although the voluntary holding down was not perhaps so voluntary on our part as it was on the railways. The fact that the railways were held down kept us down. But let us assume that we were voluntary about that. The result is that we have had the same problem to face and this relates only to these joint rates with the railways, with CNR in our case, and to the CPR rail, lake and rail rates. We have been in the same boat with the rest of the transportation companies and we do not honestly see why we should not be tapered off just the same as the other transportation companies. That is what we are asking.



Mr. PICKERSGILL: Well, I would just like to make one further comment about that to the Committee. The government will have to consider this point and so will the Committee. I do not think there is very much point in our discussing it much further now. Mr. Hansard's position is very clear and the Canada Steamship Lines' position is very clear but I would like to make this one observation: The transitional payments are being paid to the railways not just because of the Freight Rates Reduction Act but also, and in a much larger part, to compensate for wage settlements because the government intervened in the wage settlement with the railways. The government has never intervened in the wage structure of Canada Steamship lines and, therefore, there is no reason why they should get any transitional payments or tapering off with respect to that.

The second point which I would like to make is part of this is because we are studying the Crowsnest rates and here again this has no application to Canada Steamships. Another is because of the passenger traffic which also has no relationship to the Canada Steamship Lines. The only argument for this would be with respect to the roll back under the Freight Rates Reduction Act.

Mr. HANSARD: Mr. Pickersgill might I say one thing further. First of all, I forgot to mention that the Transport Act which regulates water rates, is not being touched. We apparently are still going to be regulated. I assume that it will not be very much.

Mr. PICKERSGILL: I do not think so. You are being told to compete.

Mr. HANSARD: The other thing, of course, is on the question of costs. I would not want the Committee to be left with the idea or it be thought that because the government intervened in the rail labour settlements we do not have our labour problems and labour increases, too.

Mr. SOUTHAM: I would like to ask a question on the discussion. When Mr. Hansard was presenting his brief I thought the comment was interesting with regard to the technicality of the section of the act in the use of the words railway companies and transportation. Mr. Hansard pointed out the Canadian Pacific who is also engaged in transportation by water, would be covered by this act but in his case his company is not because they are wholly a water transportation company. I think he had a valid point there.

Mr. PICKERSGILL: I think he had a good point for argument or debate. I would not go so far as to say it was a valid point.

The CHAIRMAN: I think that closes the brief and I would like to thank Mr. Hansard and Mr. Paquin for being here today and presenting their brief. I am sure we will give it the consideration they have been looking for. Thank you very much.

Mr. HANSARD: Thank you very much, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Hansard.

Gentlemen, we have next a brief submitted by the Windsor Chamber of Commerce. The brief is not before you. I understand it was sent by express on Monday but we have not received it yet. With us today is Mr. John McKeown, Secretary of the Freight Traffic Committee of the Windsor Chamber of Commerce; Mr. Robert Merrifield, Vice Chairman of the Freight and Traffic Committee and Mr. Harry Ringrose, a member of the Windsor Chamber of Commerce. It is a very short brief consisting of three pages. We shall have Mr. McKeown read it.

Mr. John McKEOWN: (*Secretary, Freight Traffic Committee, Chamber of Commerce, Windsor*): Mr. Chairman and members of the Committee, I would like to thank you first for the opportunity of appearing before you; it is quite an honour.

The Windsor Chamber of Commerce supports in general the national transportation policy as set out in Bill No. C-231, welcoming particularly the provisions for discontinuing uneconomic services and reducing subsidies when this is possible. There is, however, one area where we submit that a change must be made in the proposed legislation in order for it to meet its objective of rationalization and equality.

In southwestern Ontario, transportation costs for many movements involving agriculture and industry, have for the past few years given us considerable concern, especially in relation to rate provisions enjoyed by other parts of Canada. Our anxiety emanates from the fact that our competitive position involving freight costs is steadily deteriorating. This is illustrated by the fact that, since April 1948, there have been 13 horizontal percentage increases or adjustments ranging in size from 7 per cent to 21 per cent.

The cumulative increase in rail freight rates since the above date has totalled 166 per cent making the rate, which was one dollar at that time, now \$2.66.

Eastbound and westbound rate-making principles involving central Canada are quite different. Westbound rates from most origins are equal, while eastbound rates reflect mileage operated. This condition results in an unfavourable freight rate situation for southwestern Ontario communities.

We have what would appear to be a preferred waterway location. However, even here the discrimination in rates combines to defeat its natural advantage because water rates are predicated on the level of railway rates. On shipments through the lakehead to western Canada, a Windsor manufacturer is granted a 10 cent per 100 pound advantage over Toronto and Montreal on first class freight, while to send the same first class freight east to Montreal, a Windsor manufacturer must pay 76 cents over Toronto on the same commodity. Each horizontal increase in rates magnifies our disadvantage.

We urge that provision be made for establishing westbound rail freight rates from southwestern Ontario based on the advantage of short line mileage through

the United States to western Canada destinations. The following mileage table illustrates this point:

To Winnipeg

From	U.S. Short Line Mileage	Canadian Mileage
Sarnia .....	983	1442
Windsor .....	988	1448
Harrow .....	1009	1463
Wallaceburg .....	1013	1423
Leamington .....	1026	1446
Chatham .....	1034	1400
London .....	1042	1336
Dresden .....	1046	1412
Ridgetown .....	1054	1420
Forest .....	1056	1417
Courtright .....	1077	1443
St. Thomas .....	1096	1343
Hamilton .....	1123	1266
Toronto .....	1154	1231
Montreal .....	1489	1414

Our recommendation to your Committee, Mr. Chairman, is as follows. We recommend that Section 325(1) of the Railway Act, as amended on page 36, part V, clause 48, be further amended deleting the words, "on its line" and adding the following sentence: "Routes between these two points may be via connections with other railways in Canada or the United States".

The amended section will then read as follows:

325.(1) Every company shall file with the Commission the freight classification that shall govern its tariffs of tolls and shall maintain such tariffs of tolls as will, in conjunction with a freight classification, provide published tolls applicable between any two points in Canada. Routes between these two points may be via connections with other railways in Canada or the United States.

That is the total brief. We would be most happy to answer questions of the committee and I would ask the Chairman to allow Mr. Ringrose or Mr. Merrifield to answer where it seems appropriate.

The CHAIRMAN: The Committee is open for questions. Are there no questions on this matter? Mr. Pickersgill?

Mr. PICKERSGILL: Perhaps I might be permitted just to say a word about this matter. I think there might be some difficulty in accepting the recommendation in the form in which it is contained here, because there would be some question about whether we were exceeding our jurisdiction in seeking to make laws with respect to American tolls. I do not know whether this would be the case, but with the general broad objective of the Windsor Chamber of Commerce that the particular geographical situation of southwestern Ontario should be taken properly into account in so far as railway rates are regulated and not bargained



about, I have the greatest possible sympathy. I may say I am going to ask the draftsmen, and the experts in the department, to look carefully at this situation and if there is some equitable way we can find of meeting the problem, we will endeavour to do it. I have some doubt about whether the precise amendment suggested would in fact accomplish the purpose and even graver doubts about whether it would be the best way to go about it.

Mr. McKEOWN: We thank the minister for his statement.

The CHAIRMAN: Are there any comments from the other witnesses on this matter?

Mr. Harry RINGROSE (*Member, Windsor Chamber of Commerce*): Mr. Chairman, Mr. Pickersgill and gentlemen, replying to Mr. Pickersgill's statement about the possibility of regulating rates or prescribing rates through the United States, I think it would be well to point out here that United States carriers, through the authorization of the Interstate Commerce Commission, do quote rates based on mileage through Canada. Now it would seem if they can do it through Canada there would be no objection to us prescribing rates on United States mileage.

Mr. PICKERSGILL: We will look at that. Of course one great difficulty, I think, which perhaps all of us find a little hard to appreciate is that we are getting away from prescribing rates in a very large measure in this legislation. And, provision for the prescription of rates on one basis rather than another may not be a very effective remedy to the problem. But, I understand the problem very well, I think, and my officials also do. It is a highly technical problem but it is very important to southwestern Ontario and we will endeavour to do anything we can to meet the problem in an effective way.

Mr. RINGROSE: Perhaps, if I could sir, just emphasize one point, namely, that we have a very difficult problem in southwestern Ontario when we are trying to encourage new industries to come to our area. They look at our sites and become very enthused about locating in our area and then they look at the freight rate situation and they find it would cost them more to do business in eastern Canada and just as much to do business in Western Canada. Under those circumstances they just do not locate in southwestern Ontario if it is a Canadian trade they are interested in. They will not locate in our area if they are intending to do business from coast to coast.

Mr. PASCOE: I wonder if I could ask the last witness, not for specific cases, but whether some industries have refused to locate there?

Mr. RINGROSE: Yes.

Mr. PASCOE: They have refused because of this?

Mr. RINGROSE: There is one in particular, I can think of. We spent a lot of time with them, providing freight rates and locating a site. We thought we were all set. Then we saw an announcement in the paper that they had decided to locate closer to Toronto. They did not tell us specifically it was because of freight rates, that is, not officially, but we learned this was the reason. We have had companies leave Windsor. One in particular left Windsor and located north of Toronto so they obtain even lower rates for the west than Toronto because their

mileage is less. Here again, they will not say officially they left because of freight rates but we know through informal sources that this is the reason they located where they did.

Mr. PASCOE: Could I ask Mr. McKeown a question. I did not take the figures down but I think he indicated that the route was much shorter to the west via the United States lines?

Mr. McKEOWN: That is right, sir.

Mr. PASCOE: What route would you take through the United States and where would it come back into Canada again? Could you tell me?

Mr. McKEOWN: I would like Mr. Merrifield to answer that.

Mr. ROBERT MERRIFIELD (*Vice Chairman, Freight Traffic Committee, Windsor Chamber of Commerce*): That would go through Detroit via Chicago and through Emerson, Manitoba into Winnipeg.

Mr. PASCOE: That would be up the Sault line, then? Is that a regular, fast daily service?

Mr. MERRIFIELD: It could be equal to what we are getting via the Canadian road.

Mr. MARTIN (*Timmins*): I would like to ask a question of the Minister. Is it or has it been in the past, a matter of policy to ship all-Canadian route? Has this been a factor?

Mr. PICKERSGILL: There is no inhibition on a company to shipping through the United States, but without knowing at all—this is just a wild guess which no one should make—I suspect maybe the freight rates are higher in the United States and that is the reason this problem would arise. Obviously, if the combined rate from say Chatham, and even more from Windsor, which would be an all American route until you get to Emerson and North Porter, was actually lower, there would be nothing to stop a Canadian shipper shipping that way in bond, I would think.

Mr. RINGROSE: Except sir, that if you fill a carload of freight from Chatham or Windsor to Winnipeg the rates from Canada would apply via the Canadian route on the basis of the Canadian mileage, even though the car might go through the United States.

Mr. PICKERSGILL: Even if you offered your freight to the Chesapeake and Ohio?

Mr. RINGROSE: This is right; their rates are the same as Canadian National or Canadian Pacific.

Mr. PICKERSGILL: Well, it has been demonstrated that ministers are very unwise to shoot off their faces without knowing the facts. However, there is a problem here, and as I said earlier, we in the department will be quite happy to look into it and see if we can come up with a constructive suggestion.

The CHAIRMAN: May we have a motion that the mileage table illustrated on page 2 of the brief be printed as part of the brief in its normal place.

Mr. DEACHMAN: I so move.

Mr. SOUTHAM: I second the motion.

Motion agreed to.

The CHAIRMAN: I would also request a motion that the proceedings to this point be included in the evidence presented to the Committee, now that we have our quorum.

Mr. DEACHMAN: I so move.

Mr. LEGAULT: I second the motion.

Motion agreed to.

The CHAIRMAN: Are there any further questions? If not, I want to thank Mr. McKeown, Mr. Merrifield and Mr. Ringrose for appearing before us today and presenting their brief, and I am sure the Committee will give it consideration. The Minister has already said the matter will be considered. Thank you very much.

Before we adjourn I want to bring to the attention of the committee, again, office facilities are being obtained for Dr. Armstrong so that once we have the office set up we will be able to advise members to make their services available to Dr. Armstrong, for this Committee. I will meet with him today to discuss these matters further.

I also want to bring to the attention of the members that we will adjourn until 3.30 when we will hear the brief of the Canadian Trucking Association. I would ask all members to be here at 3.30 because it is quite a lengthy presentation. The Canadian Trucking Association brief is quite lengthy although it will not be completely read; as is our normal practice, there will be a summary presented. If the members are on time this afternoon we may be able to complete it by six o'clock. If not, then we will have to go into this evening. But, there is no meeting set for this evening. The only meeting set is for 3.30 to hear the Canadian Trucking Association. It is up to the members whether it continues on into the evening.

Tomorrow morning we do have a short brief from the Manitoba Branch Line Association. We will meet from 9.30 to 11. So we will adjourn until 3.30.

Mr. DEACHMAN: When will we reach clause by clause consideration of the bill? Can you give us a guess?

The CHAIRMAN: As I indicated, it was the intention to start clause by clause consideration on November 17. We would not be sitting on November 14, 15 or 16 because of the Conservative conference. However, I did receive a call, as I stated yesterday, from Mr. Mauro the counsel for the government of Manitoba and the province will be presenting its brief. A tentative date has been set for all day Thursday the 17th of November. If they are not here that day we will start clause by clause consideration on the 17th and just hold those clauses where there is contention, for the presentation of the brief.



## AFTERNOON SITTING

THURSDAY, November 3, 1966.  
3.30 p.m.

The CHAIRMAN: Gentlemen, I see a quorum. We have before us this afternoon witnesses from the Canadian Trucking Associations. On my immediate right is Mr. John Magee, General Manager; Dr. K. W. Studnicki-Gizbert, Associate Professor of Economics, York University, Toronto, and Mr. Marius Gendreau, Assistant General Manager, Canadian Trucking Associations, Incorporated.

There has been distributed to you this morning a summary of the submission that you received earlier. I would ask for a motion to print the brief that was submitted earlier as an appendix to the proceedings of our meeting.

Mr. SOUTHAM: I so move.

Mr. STAFFORD: I second the motion.

Motion agreed to.

The CHAIRMAN: Mr. Magee will read the summary of the submission, which has just been distributed.

I also want to bring to your attention, before we commence, that Dr. Armstrong is now located in an office in the west block, Room 238. There is no telephone there at the present time. Anyone wishing to make use of his services will please contact Dr. Armstrong at the west block. He is next door to Mr. Munro's office and perhaps you could contact Mr. Munro's secretary to get in touch with him.

When this submission is finished I would ask all members to stay for an in camera meeting with Dr. Armstrong, Dr. Magee, would you proceed.

Mr. JOHN A. D. MAGEE (*General Manager, Canadian Trucking Associations Incorporated*): Mr. Chairman, hon. members of the Committee, it is a privilege for the Canadian Trucking Associations to have this opportunity of expressing its views on what is the most important piece of transportation legislation that has faced our industry since the first truck started to roll along the highways. We have a summary of our lengthy submission, and I think all of you have a copy of the summary now. I will make our presentation of the basis on the summary.

Before doing so, I would like to mention that on two pages of our submission there have been errors that we have noticed, and we have an errata sheet, Mr. Chairman, covering those two pages; we would very much appreciate it if what is on this errata sheet is what is taken into the official record.

The CHAIRMAN: We will leave this with our Clerk and he will see that it is included when your brief is printed, Mr. Magee.

Mr. MAGEE: Thank you, Mr. Chairman. We have, among the spectators who are here, Mr. Chairman, the President of Canadian Trucking Associations, Mr. George Gouin, who has come to give his moral support to our presentation to you today.

I would like to mention, in connection with Dr. Gizbert, that he has assisted Canadian Trucking Associations in dealing with the economic aspects of this submission, and he is introduced to the Committee to assist in the technical part of our presentation. I will deal with the policy parts of our submission. Dr. Gizbert was educated at the London School of Economics and McGill University, and specialized in transport economics at both institutions. From 1954 until 1964 he held various appointments in the Transport department and the Air Transport Board, where he was chief economist. He acted as the transportation consultant to the world bank, dealing with problems of transport planning and regulation in New Guinea and Venezuela, and as a consultant to the Air Transport Board. At present he is on the staff of the economic department of York University and his previous academic appointment was at Mount Allison University in Sackville.

### INTRODUCTION

1. Mr. Chairman and hon. members of the Committee, the statement of national transportation policy in section 1 of Bill No. C-231 is of transcendent importance. With the existing words that appear in that section, there can be no fear that the national transportation policy can be manoeuvred in a direction oriented to the interests of any one form of transport. The stated objective is that:

An economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada.

2. After years of strife and controversy in the transportation field, we now see a Bill under which all forms of transport, competing freely with each other, can concentrate fully on the achievement of the best possible transportation service at the lowest overall cost for the people of Canada.

### BILL C-231

3. The trucking industry supports Bill C-231 in principle. The industry and its Associations both provincial and national will co-operate to the best of their ability in the successful achievement of the national transportation policy.

4. The preservation of strong competitive forces in transportation is the theme underlying most of the amendments which we propose. We trust that these amendments will merit the careful consideration of the Committee.

### CANADA'S COMPETITIVE TRANSPORTATION INDUSTRY

5. The studies of the MacPherson Royal Commission on Transportation, confirmed the fact that, at present, competition is the most important factor in the transport market; since the publication of the Commission's report, the competitive elements in transport have increased further. The proportion of railway freight traffic carried at competitive rates and agreed charges has more than doubled during the years 1954 and 1964.

6. The competitive nature of the trucking industry has, to say the least, contributed largely to reduce the number of "captive shippers".

### EXTRA-PROVINCIAL TRUCK CONTROL

7. Part III of Bill C-231 is naturally of great interest and concern to the extra-provincial trucking industry. It provides the means by which a Commission established by the Government of Canada may assume extensive regulatory powers in the extra-provincial field. Until now, as you are aware, such regulation has been exclusively by provincial authorities.

#### *Intra-Provincial Truck Operations*

8. It is the view of Canadian Trucking Associations that the National Transportation Act should assert control over the cross-border lines of all international and interprovincial undertakings but that intra-provincial lines of such undertakings should be regulated by provincial boards. We recommend that this be done by amending Bill C-231, limiting its application in Section 4 by adding the following words to Section 4 (e): "except transport by such motor vehicle undertaking which is performed exclusively within the limits of a province."

#### *Provincial Boards as Examiners for Canadian Transport Commission*

9. It is recognized by Canadian Trucking Associations that the Canadian Transport Commission must be in control of the regulatory processes for all modes of transport under federal jurisdiction if the objectives of Bill C-231 are to be carried out. However, Canadian Trucking Associations recommends that where provincial regulatory boards are willing to hear applications of extra-provincial carriers and make reports, with recommendations, to the Canadian Transport Commission as to the disposition of applications, this useful role should be performed jointly by the provincial boards concerned. In short, Mr. Chairman, what we are suggesting there is a system similar to the examiner system used by the Interstate Commerce Commission, and the examiners in this case would be the provincial boards where they were willing to act.

In that respect we propose the following amendment in Part III:

10. The Commission shall appoint an examiner or examiners in each province to conduct such enquiries as the Commission deems necessary with respect to any matter which may be determined, prescribed, ordered or considered by the Commission under this Part. If the Motor Vehicle Transport Act has come into force in a province by proclamation as provided in Section 7 thereof, and so long as the said Act remains in force in such province, the Provincial Transport Board of such province as defined in the said Act may delegate one or more of its members who shall be appointed as the examiner or examiners by the Commission in that province, provided that for the purposes of this Act the Ontario Highway Transport Board shall be deemed to be the Provincial Transport Board in the Province of Ontario.

The reference to the Ontario Highway Transport Board, in particular, is necessary because in Ontario really the regulatory agency is the Minister of Transport. It is the Minister of Transport who, on the recommendation of the Ontario Highway Transport Board after that board has held its hearings on the application, actually issues the operating permit.



*Grandfather Rights*

11. On the subject of grandfather rights, we are submitting to the Committee that where the power to control entry into an industry has been given to a regulatory authority, it has been customary to recognize the right to continue a service upon the commencement of regulation by a new authority.

12. We recommend that the following sub-section be added to Section 31 of the Act.

*Sub-section (7)*

Where a person has operated a motor vehicle undertaking to which this Part applies prior to the time this Part is made applicable to such motor vehicle undertaking, and such person holds a licence issued under the authority of the Motor Vehicle Transport Act in each province for which such a licence is required and in which he operates such undertaking, the Commission shall issue to such person a licence to operate a motor vehicle undertaking to which the Part applies, upon like terms and conditions as are prescribed in the licence or licences held by such person under the authority of the Motor Vehicle Transport Act.

*Violation of Licences and Tariffs*

13. The present Section 32 provides that no person shall operate an inter-provincial motor vehicle undertaking unless he holds a licence issued by the Commission. Violation of this rule is declared to be an offense. This Section does not seem to apply to two situations:

- (1) when a motor vehicle undertaking operates in violation of an existing licence;
- (2) when a motor vehicle undertaking gives a rebate or transports goods at rates other than tariffs filed with the Commission.

14. It is the submission of Canadian Trucking Associations that such provisions are required and necessary. Accordingly it is suggested that Sections 32 and 34 be amended as follows:

*Section 32:*

Add a new sub-section (ii) to read as follows:

- (ii) No person shall operate a motor vehicle undertaking (or trailer or container undertaking) or a freight forwarder undertaking to which this part applies contrary to the conditions attached to the licence issued under Section 31.

The present sub-section (ii) becomes sub-section (iii) and should read as follows:

- (iii) Every person who violates sub-section (i) or sub-section (ii) is guilty of an offence and is liable upon summary conviction to a fine—

*Section 34:*

Present section becomes sub-section (i). Add new sub-sections (ii) and (iii) to read as follows:

- (ii) No person, whether a motor vehicle undertaking, (a trailer or container transport undertaking), freight forwarder, shipper, con-

signer, or broker, or any officer, employee, agent or representative thereof, shall knowingly offer, grant or give, or solicit, accept or receive any rebate, concession or discrimination in violation of any provision of this part, or who, by means of any false statement or representation or by the use of any false or fictitious bill, bill of lading, receipt, voucher, roll, account, claim, certificate, affidavit, deposition, lease or bill of sale, or by any other means or device shall knowingly or wilfully assist, suffer or permit any person or persons to obtain transportation of passengers or property to which this part applies for less than the applicable rate, fare or charge or who shall knowingly and wilfully by any means or otherwise fraudulently seek to evade or defeat regulation provided under this Part.

- (iii) Every person who violates subsection (1) and subsection (2) is guilty of an offence and is liable upon summary conviction to a fine not exceeding \$5,000 or to imprisonment for a term not exceeding one year, or to both fine and imprisonment.

#### *Filing of Rate Agreements*

15. Section 53 of Bill No. C-231 would provide that "railway companies shall exchange such information with respect to costs as may be required under this act and may agree upon and charge common rates under and in accordance with regulations or orders made by the commission."

16. It is recommended that there be added either a subsection 2(c) of section 33 or as a new subsection to section 35 the provision that follows:

Any agreement between any two or more transportation undertakings relating to rates, fares or charges or rules or regulations pertaining thereto shall be subject to approval by the commission on pain of nullity. Parties to such an agreement approved by the commission, and their officers and employees shall be, and they are hereby relieved of the operation of the Combines Investigation Act and the provisions of the Criminal Code.

#### *Uniform Bill of Lading*

17. Under section 35 the commission will have authority to make regulations in respect to a uniform bill of lading. In this connection, presumably, it will undertake to set out uniform conditions of carriage and tariff provisions.

18. It would be helpful if these uniform tariff provisions contained a rule regarding the payment and collection of rates and charges. It is recommended that a new section 35 (b) be considered as follows:

No motor vehicle undertaking to which this part applies shall deliver or relinquish possession at destination of any freight transported by it until all tariff rates and charges thereon have been paid, except upon such rules and regulations as the Commission may from time to time prescribe to govern the payment of all such rates and charges, including rules and regulations for weekly or monthly settlement and to prevent unjust discrimination or undue preference or prejudice."

*Maritimes Freight Rates Act*

19. In its present form, the Maritime Freight Rates Act of 1927 discriminates against the trucking industry in the Atlantic Provinces and has caused that part of Canada's trucking industry to be underdeveloped in relation to the industry in other parts of Canada. The effects of the Act overlap into Quebec and also have had an adverse effect on trucking firms in that Province.

20. The Maritime Freight Rates Act recognizes the point that we are making here. It recognizes the necessity for the avoidance of discrimination against carriers. The subsidized reduction of freight rates, which was begun in 1937, applied not only to the Canadian National Railways, of which the Intercolonial Railway was a part, but to competing railways in the Atlantic provinces which, subsidy or not, would have been forced to match the rate reductions of the CNR, were it to be compelled under the act.

21. Bill No. C-231 holds the M.F.R.A. rates at the reduced levels, continuing the unilateral subsidization of railway shipments. This continued discrimination flies in the face of those high principles of national transportation policy enshrined in section 1 of the bill—and I may say that it also flies in the face of the recommendations of the MacPherson Royal Commission on transportation which you will find in Volume 2.

22. We find, further, that the rate reductions of the Freight Rates Reduction Act are to continue in the Atlantic Provinces for two years after the coming into effect of the bill.

23. Such harsh treatment of the Maritime trucking industry can in no way be related to either the findings or recommendations of the MacPherson Commission.

*Inclusion of Truck Shipments in MFRA*

24. We recommend that the Maritime Freight Rates Act be amended to provide the subsidy aid to shipments carried by all modes of transport; in short, that parliament will not say subsidy aid there will be for freight shipments in the Atlantic provinces but only the freight shipments moved by rail, but that parliament will recognize all freight shipments as being eligible for federal aid, if that aid is to continue.

*Cancellation of Freight Rates Reduction Act Reduced Rates*

25. We recommend that the reduced rates of the Freight Rates Reduction Act cease to apply in the Atlantic Provinces upon the coming into effect of Bill C-231.

*East-West 'Bridge' Subsidy*

26. What the government proposes in Bill No. C-231 is to end the 'bridge' subsidy, which was recommended by the MacPherson Commission, but to freeze the reduced 'bridge' rates for a year after the coming into force of Part V of the National Transportation Act. Then, over a period of three years, a graduated increase in rates is permitted. Again, the MacPherson report drew attention specifically to the fact that the 'bridge' subsidy had an adverse effect on the development of the east-west trucking firms and this was one of the major



reasons that they recommended the repeal of the 'bridge' subsidy. That is in Volume 2.

#### *Abolish Rate Reductions*

27. We consider that the proposed policy in regard to the 'bridge' subsidy is contrary to the National Transportation Policy expressed in section 1 of the bill. We recommend that the rate reductions as well as the subsidy be abolished so that, in fact, there may be "the ability of any mode of transport to compete freely with other modes of transport."

#### *Railway Express Traffic*

28. A railway company operating an uneconomical passenger service may claim for losses 90 days after its application for discontinuance has been filed with the Canadian Transport Commission. On the recommendation of the commission, the Minister of Finance may reimburse the railways by paying amounts not exceeding 80 per cent of the passenger loss.

29. In the proposed section 314 (1), subsection 1(c) states that "actual loss" means the loss attributable to the carriage of passengers, *mail or express* or any combination of passengers, *mail and express*, in passenger service equipment by a passenger-train service."

#### *Elimination of Mail and Express from Definition of "Actual Loss"*

30. Trucks are now carrying a heavy volume of mail in Canada. Railway express is directly competitive with truck freight service in respect of practically all commodities. We recommend that the losses for passenger service which can be reimbursed by the Minister of Finance do *not* include mail or express movements. The reference to "mail and express" should be eliminated from the proposed section 314 (1) subsection 1 (c) so that subsidies for passenger service losses will be restricted to such service. This is a somewhat obscure point in the bill perhaps but it is an important point, Mr. Chairman, because the so-called 'head-end' equipment run in passenger trains is containing freight that is competitive with the trucking industry. You have seen these trains, gentlemen; you know what they look like. They may be set up at the front end of the train with box cars that are especially equipped for passenger service; they may be refrigerator cars; they may be express cars; they may be combined express and mail. I happen to be a bit of a railway buff and I usually ask for a room on the railway side of the tracks at the Palliser Hotel in Calgary which I never have any difficulty in getting. I noticed there one time a passenger train that came into the station from the west with 23 freight carrying cars of various types. There was one passenger car on the back which had passengers in it—I saw them alight—and a caboose. The point that we are making in this part of our submission is that we do not want freight, express and mail subsidized under the guise of the passenger subsidy.

#### *Piggyback*

31. We are pleased to see, in Bill No. C-231, that section 45 by adding subsection 9 to section 319 of the Railway Act, gives effect to the MacPherson Commission's recommendation that the railways should always charge the same

rates for trailers of independent trucking firms as for the trailers of trucking firms owned by the railways. I might say that it is our understanding in the trucking industry at the present time that the railways, since piggyback was made available to us, always have charged the same rates for the movement of trailers of independent carriers as for the trailers of their own trucking subsidiaries. But, apparently the MacPherson Commission believed that there should nevertheless be a safeguard to prevent any change in that situation.

32. But safeguards, if included only in the Railway Act, as Bill No. C-231 contemplates, leaves the door open to evasion of the policy recommended by the Royal Commission and the policy endorsed by the government. The door to evasion is wide open in the agreed charge provisions of the Transport Act because the railways can make an agreed charge with one of their trucking subsidiaries which, in that situation, would be a shipper, and make an agreed charge with conditions in it that would be impossible for an independent carrier to meet and they could set the rates very much lower than they are for the independent trucking firms. That door is wide open in the Transport Act as it stands now.

#### *Transport Act to Enforce Equal Piggyback Rates in Agreed Charges*

33. We respectfully submit that, in accord with the safeguards that the government would create in Bill No. C-231 under the Railway Act, to prevent unusual and discriminative treatment in the rates charged to trucking companies consigning trailers by piggyback, the Transport Act as well as the Railway Act should be the subject of appropriate legislated amendments.

#### *Regulation of Piggyback, other container operations and forwarders*

34. There are at present a number of trucking firms whose trans-border operations are primarily by piggyback and who would be in a position to carry on extensive unlicensed operations if part III of Bill No. C-231 comes into force as it is presently worded. If this were the case the Commission would be in the position of having its orders and regulations as to tariffs, bills of lading, insurance and licensing ignored by a potentially important segment of transport undertakings.

#### *Definition of Motor Vehicle to Include Trailers*

35. To overcome these problems, and to ensure that no confusion can arise by the present omission to mention trailers in the definition section of the act, we suggest the following amendments:

##### *Proposed Section 3, Subsection (d)*

(d) Motor vehicle undertaking means:

- (i) a work or undertaking for the transport of passengers or goods by motor vehicle; and
- (ii) a work or undertaking, other than a railway to which the Railway Act applies, for the transport of goods by a trailer or a container designed for operation in conjunction with a motor vehicle.

(e) "Motor vehicle" shall include a trailer operated in conjunction with a motor vehicle.

*Definition of Freight forwarders*

36. We submit that the interprovincial operations of freight forwarders should also come under the jurisdiction of the Commission. Our reason for this recommendation is the same as the reason for our recommendation with respect to piggyback and container operations: forwarders should be subjected to the same obligations and the same responsibilities to the Commission and the public as are motor carriers. We recommend that a special part dealing specifically with forwarders should be added to Bill No. C-231. Or alternatively, Part III of the Act should be extended to cover freight forwarders. In any case, we recommend that a new Section 3 (f) should be added to define freight forwarders as follows:

Freight forwarder undertaking means a work or undertaking other than a railway to which the Railway Act applies, transport by air to which the Aeronautics Act applies, transport by water to which the Transport Act applies, motor vehicle undertaking to which the Motor Vehicle Transport Act applies, which holds itself out to the general public to transport or provide transportation of property or any class or classes of property for compensation and which in the ordinary and usual course of its undertaking.

- (1) assembles or consolidates or provides for assembling and consolidating shipments of such property and performs or provides for the performance of break bulk and distributing operations with respect to such consolidated shipments, and
- (2) assumes responsibility for the transportation of such property from point of receipt to point of destination, and
- (3) utilizes for the whole or any part of the transportation of such shipments the services of a railway, transport by air, transport by water or a motor vehicle undertaking subject to Part 1, 2, 3, 4 or 5 of this Act.

*Control of Lease Operators and Brokers*

37. A lease operator is one who holds no licence but who effectively carries on a trucking business by leasing his vehicle and his services to his customer or customers. A broker is an operator who owns and operates a motor vehicle which is registered in the name of another person holding a licence to carry goods by motor vehicle.

38. The objection to a lease operator is obvious. He is in direct competition with licensed operators but is able to ignore the regulatory constraints to which they are subject. The objection to a broker operation is that where a licensed operator makes use of brokers he stands between the regulator authority and the parties to whom it was intended that regulation should apply. A licensed operator making use of brokers can, without risking his own capital, encourage more operators to serve a particular route than would be economic having regard to the traffic available and thus create instability among all those firms which must have regard to true costs of operation.

39. The present wording of Section 3(d) and Section 32(1) of Bill No. C-231 leaves the impression that so long as a motor vehicle is used for the transport of goods its operation may be subject to regulation by the Commission. However,



we are concerned that this broad jurisdiction may prove to be limited in such a way that proper control of lease operators or brokers is not affected.

40. We recommend that the Commission's power to control all interprovincial transport of goods by motor vehicle be ensured.

### RAILWAY ENTRY INTO THE TRUCKING FIELD

41. The erosion of the independence and competitiveness of the trucking industry continues. The purchase of trucking firms by the railways, the extension of the operations of existing railway truck lines, surely, in transport legislation of such importance as Bill No. C-231 raises the question of future government policy.

42. Such entry has been persistent since the year 1946 and has fluctuated in cycles of activity by the CPR in the period 1946-1948 and 1957-1958, and, in the case of the CNR, largely in the period 1959 onward.

43. The national transportation policy being established for Canada in Bill No. C-231 draws the Committee inexorably, we submit to an examination of the extent to which the railways have entered the competitive trucking field and the extent to which they have positioned themselves to establish control within this field. We respectfully submit that the time has come when parliament, viewing the amount of rail entry that has taken place and the comprehensive variety of services controlled by the railways on the highways, must penetrate beyond glib explanations about a 'trucking arm' or 'integration of services'.

44. Control can be achieved by the railways within any given section of the trucking industry by one purchase among, say, six independent trucking companies operating on a route. The minute railway ownership becomes a factor on that route the situation exists where the dominant carrier is the railway on rubber-tired wheels—one of the railways that the MacPherson Commission pinpointed as being able to "create intolerable uncertainty by sporadic rate wars, so that an efficient trucking industry cannot persist." How could the railways create this intolerable uncertainty? "Because of their relatively enormous size and resources, and the relative permanence of investment compared to firms engaged in other modes."—the description of the MacPherson Commission. Of course, there they were talking of the power of the railway in the rate field, but what is true of the power of the railway in the rate field is equally true of the power of the railway as an investor in the field of its arch-competitor the truck.

45. *In the years ahead, above and beyond the 93 sections of the National Transportation Act, the Canadian railways can regulate from the headquarters in Montreal the development of surface transport by the amount and location of their purchases in the trucking field.*

46. With this power and without regulation of rail entry into trucking—and there is no such regulation in Bill No. C-231; none whatever—the railways can effectively bypass the national transportation policy establishment in section 1.

### *Regulatory Control of Rail Entry*

47. Our proposal for dealing with that situation, if parliament is disposed to deal with it—and we think that Parliament should be, particularly in a

piece of legislation of such momentous import as this, because it is the most all-embracing legislation that has come before Parliament in years—is this. We recommend that the following new section 35(c) be added to Part III of the bill as follows:

- (i) Any merger, consolidation, sale, exchange, transfer or lease of a motor vehicle undertaking or any agreement, contract or transaction which is to bring about a change in the control of such motor vehicle undertaking shall be null and void unless approved by the Commission prior to its intended effectiveness.
- (ii) Notwithstanding the foregoing or any other provision of this part, no person, partnership or corporation operating or controlling any transportation undertaking other than a motor vehicle undertaking shall acquire an interest in or control of or shall operate a motor vehicle undertaking except that a railway company or an airline or a steamship company may operate or control a motor vehicle undertaking in conjunction with its transportation services for the purpose of pick-up and delivery in urban centres.

#### THE RIGHT OF COMPLAINT, APPEAL AND INVESTIGATION

48. Now we come to the matters that are raised in Bill No. C-231 with respect to the right of complaint, appeal and investigation. In respect of competitive freight traffic capable of movement by road or rail, the MacPherson Commission put one restriction on such competition. It was that the freight rates must be compensatory, at least to the extent of direct out-of-pocket costs of the movement for the very short run period; or, for a longer time span, at variable costs as defined for the period, or at long run marginal costs.

49. Now an impression can be easily created, by taking selected quotations from the MacPherson report, that that commission saw rail and truck media as competing on roughly equal terms—that on the onehand, we had the giant railroad industry and, on the other hand, the giant trucking industry, and that the test of survival lay in the ability of one of the industries to pit its economic strength against the other.

50. Of course, what exists is not two giant trucking systems, one publicly-owned, the other privately-owned, but thousands of individual firms, small and large, comprising what is known as the trucking industry. The commission gave evidence of its deep concern that an economically weaker, but not less efficient, competitor, could be put out of business, and its investment wiped out, by charging rates below cost. The commission stated in Volume II at Page 66 the following:

Because of their relatively enormous size and resources, and the relative permanency of investment compared to firms engaged in other modes, the railways could create intolerable uncertainty in the trucking industry by sporadic rate wars, so that an efficient trucking industry could not persist.

51. This concern is evident in the provisions of Bill No. C-231. The proposed legislation makes provision for the *protection* and *preservation* of truck competition. This is, in our understanding, the rationale of the provisions allowing all

interested parties, competing transport industries included, to make representations to the commission at hearings concerned with the actions of the railways. These provisions are obviously logical, and in line with good regulatory practice.

### *Status of Trucking Industry as 'Party Interested'*

52. Section 33(1) of the Railway Act states that "the Board has full jurisdiction to inquire into, hear and determine any application by or on behalf of any party interested".

53. Now, the board dismissed an application of Canadian Trucking Associations in a judgment dated March 24, 1958, ruling that the associations—or any person or company engaged in the trucking business—was not a "party interested" within the meaning of the Railway Act.

54. It is not clear what the status of the trucking industry will be as a "party interested" under the National Transportation Act and it is submitted that this should either be clarified by amendment to Section 33 of the Railway Act or by an amendment to the proposed Section 45(a), inserting the words "or other carriers" in the line after the word "consignees".

### LORD'S DAY ACT

55. We come now to what could be the most misunderstood section of our brief. I wish to assure the committee, Mr. Chairman, that the Canadian trucking industry does not seek any condition of wide open Sunday trucking in the proposals we will put forward in this section. In most of our companies, we do not operate on either Saturday or Sunday, throughout the day, because business is closed then. But, we do have a problem with regard to long distance trucking operations that is created by the Lord's Day Act, and this is the problem we wish to put before you—and to suggest a way whereby the Lord's Day Act can be amended so that there will be a restricted—not a wide-open—authority for Sunday operations where they are necessary.

Section 11 of the Lord's Day Act permits any work of necessity or mercy on Sunday and specifically among the classes of works that are permitted under subsection (x) is any work that the Board of Transport Commissioners deems necessary to permit with the object of preventing undue delay in connection with the freight traffic of any railway.

56. There is a corollary in the Railway Act. Section 59(1) provides for notice of any application to the Board of Transport Commissioners in connection with the freight traffic of any railway.

57. Additional transportation costs and unreasonable delays in service are being imposed on certain trucking firms by the Lord's Day Act.

### *Application to Trucking Operations*

58. We recommend that Section 11(x) of the Lord's Day Act be amended to provide that there may be done on the Lord's Day any work that the Canadian Transport Commission, having regard to the objective of the Act, and with the objective of preventing undue delay, deems necessary to permit.

59. We recommend that Section 59(1) of the Railway Act be amended to provide that notice of any application to the commission for permission to



perform any work on the Lord's Day shall be given to the Department of Transport and shall fully set out the reasons relied upon.

### MAXIMUM RATE CONTROL

60. With regard to the maximum rate control, I will read the proposed change in the main submission—the change that we are making in our main submission—which we wish to have regarded as our official position in this one aspect of the maximum rate control to which we are addressing ourselves.

It is the view of Canadian Trucking Associations that the proposed rule for maximum rate regulation is unnecessarily restrictive for both shippers and competitive transport agencies. The results considered desirable under the legislation could be achieved if the treatment of captive traffic was changed. We propose that a shipper who can prove that if the bulk of his traffic moves by rail he should be entitled to maximum rate protection without the necessity of binding more than 50 per cent of his traffic to the railways. In this way the shipper would be free to experiment with alternative means of transport without losing regulatory protection. At the same time, competitive carriers would be able to develop feasible alternatives and experiment with their practicability.

#### *Removal of Exclusion of Truck Service when Shipper 'Captive'*

61. It is respectfully recommended that section 336, dealing with captive traffic, should not contain contractual commitment that more than 50 per cent of the traffic move by rail. Mr. Chairman, we have copies of this if members of the committee would like them.

#### *Effective Date of Filed Tariffs*

62. Under section 52(3), of Bill No. C-231, section 333 of the Railway Act would provide that a freight tariff that reduces any toll previously authorized to be charged under the act may be acted upon, and put into operation, immediately on or after the issue of the tariff, and before it is filed with the commission.

63. The effect of this provision has to be considered in relation to a non-compensatory tariff which may be immediately put into effect and which, even though complained of and subsequently found to be non-compensatory, could do untold damage to the trucking firm or firms which suffers the competitive impact of the tariff.

#### *Procedures Prescribing Effective Date*

64. There would be some chance of avoiding this situation if a tariff reducing any toll came into effect ten days after such tariff was filed with the commission. This would give sufficient time for complaint if there was prima facie evidence that a complaint was justified. It would give sufficient time to the commission to consider whether the proposed tariff was compensatory.

65. As an alternative, subsection (3) of Section 333 of the Railway Act could be deleted and replaced with the following:

The commission is authorized to enact regulations in the matter of the effective date of tariffs, rates and charges.

66. This provision could be extended to transport governed by Part III of Bill No. C-231 so that competing modes of transport will be on the same footing.

All of which is respectfully submitted.

The CHAIRMAN: Thank you very much, Mr. Magee. Before we commence questioning, because the Minister of Transport has to leave early I will call upon him first to make any comments on the brief.

Mr. PICKERSGILL: I would appreciate it if the committee would let me do this because I do have a conflicting and rather important engagement. I do not intend to make comment on all the points raised in the brief. It will not surprise members of the committee if I say that the first sentence in paragraph 3 of the summary is a source of great satisfaction to the minister and is bound to predispose him to the witnesses and the brief.

I can assure the witnesses and the President of the Canadian Trucking Associations that we intend to consider very carefully all the points raised. I know the committee also will wish to do so because they have been most conscientious with regard to all briefs presented to them.

There are some points about which I think it would be helpful if I made particular comments because I think perhaps the attitude we might have to take might be misunderstood if I did not do so right away.

Beginning with paragraph 8 on page 2, I think, perhaps, I should indicate that Parliament alone can make laws for extra-provincial undertakings. It would not be possible, I think, for a provincial legislature to make a law which would be *intra vires* with respect to the intra-provincial aspect of an undertaking that was considered to be exclusively under the jurisdiction of Parliament. But, that does not invalidate what I think is the real purpose here and which is certainly the purpose we have in the bill, namely, that we should still be able to use provincial agencies as agents of the Government of Canada and of the commission, in order to avoid duplication and waste, and to make the whole business of regulation easier. At the present time the law is made by Parliament but is administered by a provincial agency as the agent of Parliament, not as the agent of the provincial legislature. If we transfer, as we will be able to do once this bill is passed, some of the functions of the new commission—and some of them are still retained by the provincial agencies, as would be possible if this bill is passed in its present form—that, I think, would be carrying out the real intent of the brief. I just thought I ought to make that point clear. I think, otherwise, if we attempted to do it in the exact form it is here we would find that we would just get into trouble.

I must say, I am very much impressed with paragraph 9. I do think we should retain the possibility of using the same examiners for extra-provincial trucking as are used for intra-provincial trucking to the extent possible—to the extent that we can secure the agreement of the provincial governments and provincial agencies to do so.

As for paragraphs 11 and 12, we do feel that so-called grandfather rights do appear to be necessary, but whether we would accept the precise wording suggested here, I do not know. The intent we recognize as proper, however.

With respect to paragraph 13, it does appear to us that some change in the wording of the bill would seem to be warranted.

Then, coming to paragraph 14, we feel that the proposal here does warrant the most careful examination. It is a highly technical matter, and we will begin the examination of it immediately.

With regard to paragraph 16, we will discuss this matter with the law officers of the crown.

With respect to paragraph 18, I am rather inclined to think that this is a matter that could be left to the commission to deal with and that would not require any change in the legislation.

Now we come to the Maritime Freight Rates Act. I think I should say that I do not disagree with any expressions of view in this section at all. We do not feel that we are at the moment in the position to legislate effectively. The Atlantic provinces study is going on. If I thought it was going to be very protracted I think we would have to deal with these points, but we do expect the study to be completed early in the spring, and we hope to be in a position to legislate about this matter. I think I said in the House the other day that we hope to be able to legislate in 1968, or I may have said it here in the committee—I am not quite sure now which it was—but, in any event, we intend to deal with the problems at the earliest possible moment.

While I know that the truckers will feel that we should recognize that they have a problem and that we ought to try to meet it right away, I think, perhaps, on this particular point, they will have to be satisfied with the assurance that we do recognize the problem. We know the question. We are not quite sure that we know the answer yet, but we hope to try to get it just as quickly as possible. That deals with the paragraphs up to the 'bridge' subsidy.

On the 'bridge' subsidy, I think I would be less than frank if I did not say that, so far as I am concerned, I would be unable to recommend the change suggested by the truckers. We had very strong representations from certain parts of the country that to remove this subsidy all at once would create very great hardships in certain parts of western Canada. I think we are going to meet this situation, not as quickly as the truckers would like, but it will be eliminated in three years.

Concerning this question of passengers, mail and express, we will look at that to see whether in fact it is likely to constitute a problem sufficiently great to warrant changing the bill.

In any event, the commission will have very adequate powers, and I would think that the kind of train that Mr. Magee looked at in Calgary, when he had insomnia, which had one passenger car on it, a great many refrigerator and other cars and a caboose, would not be the kind of passenger train that we would be under much pressure from the mayor of Mr. Pascoe's city to subsidize to keep in operation.

As the intent of the legislation is to maintain passenger service in areas where there is no alternative service, the Minister of Finance is not a bit anxious to subsidize any passenger train. I can assure you. We are certainly not the least bit anxious to subsidize trains carrying the mail, if the truckers will carry it without a subsidy.

I think it may prove that we will come to the conclusion that this matter would be dealt with so effectively by the rules now that in fact there would be really no subsidization of the mail or express carried on such trains, even if there might be some small subsidy related to their loss in carrying passengers, as such.



If the law officers, having heard the matter, feel that that intent is not adequately expressed—and that is the intent—we will, in that case, make some proposals concerning changes.

On the piggyback provisions, I think we should take a very careful look at the point raised here. It may well be that amendments to the legislation would be required.

When we come to the definition of “motor vehicles” to include trailers, in clause 35, it does look to us at first blush that there is no question, but that we would require to make an amendment along these lines.

Looking now at paragraph 36 I would say that we intend to give the representations on freight-forwarders the most careful review, because it may be that the bill, as drafted, does not fully represent what our intent is.

I come now to paragraph 47 in which it is suggested that mergers, consolidations and so on should require the approval of the commission. I regard that as a very important suggestion and we will take a good hard look at it. The idea has certainly a great deal to commend it.

On paragraphs 52, 53, and 54 about a “party interested”, we think we will meet this problem, perhaps not precisely in the way suggested here. We know what the problem is and we intend to meet it.

Coming to paragraph 58, with regard to the Lord’s Day Act, I anticipate, as I am sure we all do, that you venture into a field where misunderstanding is so easy, but there does seem to be a problem here. If there is any reasonable way of dealing with it, I think we would all try to do that.

As for the question of the maximum rate control, we will, of course, consider these suggestions. I think we have had many suggestions on this, but I think perhaps it would be prudent at the moment to go beyond saying that they will be considered.

I think those are the main points on which I would like to make observations.

The CHAIRMAN: Thank you, Mr. Pickersgill. I have a list comprising Mr. Reid, Mr. Cantelon, Mr. Horner and Mr. Allmand.

Mr. REID: Mr. Chairman, I would like to bring up a point I raised previously with Mr. Pickersgill. I think it is particularly appropriate now that the trucking association is here.

They also brought it up and made the point about the competition between railroads and the trucking industry and the railroads moving into the trucking industry. The point is that in this bill we are trying to make a more competitive transportation atmosphere, and yet we have the point where the railways are moving into the trucking field.

What I would like to know is: what is the total investment of the railways in trucking now? Would you have any idea, Mr. Magee? Are they dominating your industry? Do they have power to upset rate structures?

Mr. MAGEE: We have no figures on total investment of the railways in the trucking business because we have not been able to get them from the Dominion Bureau of Statistics.

I actually had a study made by the bureau on this question and had the documentation in my hands ready to go into the witness box at the hearing, and I

received a frantic call from the bureau telling me that they had made a mistake in policy in providing us with this information and would I kindly destroy the document, which I did. Therefore, I do not feel that we have any official information on this subject.

What they had done, at my request, was to take out of the statistical schedules submitted by their trucking firms and by all the trucking firms in Canada the information on investment and gross revenues, and give me, not the breakdown for an individual company—they would not have given me that anyway—but to give me a consolidated statement on the railway-truck line situation. As I say, I had it in my hands, but not for very long.

Mr. REID: Mr. Chairman, in this case do you think perhaps this information could be provided for the committee since it will have a bearing on—

The CHAIRMAN: I suggest that you ask the D.B.S., Mr. Reid, or have the Clerk ask D.B.S. if they will provide it.

An hon. MEMBER: Could we not call D.B.S. before us?

The CHAIRMAN: Yes; I think this is information which we should have.

Mr. PICKERSGILL: I would venture the view that the committee would not have the power to order a civil servant to break the law. If the law says that the information cannot be disclosed—

The CHAIRMAN: We will look into whether it is possible for them to do so, Mr. Reid.

Mr. REID: The other point is that we are worried about the penetration and the control of the railway in the trucking industry, and we do not have the facts and figures. Do they compete with you on interprovincial transportation basically, or are they restricting their activities to provincial areas?

Mr. MAGEE: On highways?

Mr. REID: On highways, between provinces—interprovincial—or is it mainly within a province? Are they spread out over the country, or are they concentrated in certain areas?

Mr. MAGEE: They are spread out over the country. For example, in the west the Canadian Pacific are on the highways in the four western provinces. The Canadian National has moved in there. They have large firms—among the largest in Canada. One of them, Husband Transport Limited, has been purchased in the east, by CN. Of course, the largest in the country, which was Smith Transport Limited, was purchased by CP before that. There are truck lines in the Maritimes, Eastern Transport and Sydney transport, which are owned by Canadian National. One purchase was completed in British Columbia by CN just on the eve of the commencement of these hearings.

While the number of companies out of the total number of companies which the Canadian Trucking Association represents is small, or fractional, by the routes that they have chosen and the operating rights which they are picking up with these purchases they have spread themselves throughout very important traffic areas in the trucking industry. We have fought this in every way we can. I may say that this committee under another name was informed that we fought only Canadian National because it was a publicly-owned railway. We fought

Canadian Pacific right down to the wire on all of its purchases before CN ever started to enter into these big purchases which they have made. We have been absolutely fair in the opposition. We do not pick and choose.

Mr. REID: How closely co-ordinated are the railway activities and the trucking activities of the trucking companies owned by the railways? Are they integrated operations, or are they operated separately without any attempt at co-ordination.

Mr. MAGEE: In the case of Canadian Pacific, the merchandise services represent a co-ordination of truck lines which they purchased with other railway services. Canadian Pacific Transport Company in the west is still competitive with trucking, operating as a truck competitor.

In the Canadian National there are some trucks owned directly by Canadian National Transportation Limited and operated under that name. Then there are the subsidiary trucking companies which they have purchased, and which, so far, have apparently a fair degree of control within their own management. That policy, of course, can change very quickly. It changed in the case of all the trucking companies which now have disappeared into the ambit of the Canadian Pacific Merchandise Services—companies like O.K. Valley Freight Lines and Dench of Canada.

Mr. REID: Would you say that there is an attempt to integrate their trucking services into their railway and perhaps even into freight-carrying in the aircraft which they are now moving into?

Mr. MAGEE: There are two approaches that they take and they are quite radically different. In some cases where it suits their operating convenience they do integrate trucking operations which they run under the name of the railway, or under the name of Canadian National Transportation Limited, but big trucking firms like Smith, Husband, Midland Superior Express, are trucking firms which are competitive with the railways, and they must compete with the railways to survive in the form in which they grew up.

The railways may experience the patronage of Midland Superior Express, or Smith Transport Limited, through the movement of their trailers by piggyback, but that is a commercial transaction between one branch of the railway and the other. It is not what I would call integration.

Mr. REID: Are the railway companies and the trucking firms which they own members of your association?

Mr. MAGEE: The Canadian Trucking Association is a federation of provincial trucking associations, and their members, in turn, are the trucking firms. There are 7,000 of those firms, and the railway truck lines are members of the provincial association in the province or provinces in which they operate. They, in some cases, sit on the board of directors of the provincial association, but under the by-laws of Canadian trucking associations no person who is in the employ of a railway, or a form of transport competitive with trucking, can attend a meeting of Canadian trucking associations as a delegate; and the by-laws are worded in such a way that if you cannot attend as a delegate you cannot be a director.



Mr. REID: One of the last points I would like to make in this sequence is that of competition between modes of transportation. This is supposed to be one of the things which this bill is supposed to promote.

With the situation as you have described it, and with the possibility of further purchases by the railways, with the great capital resources which they have, would you say that this type of operation is going to prevent competition between modes of transportation—if the railways get a sufficient controlling slice of truck transportation.

Mr. MAGEE: Eventually, if the regulation of the railways does not include a regulation over their ability to enter the trucking business, that condition will come about inevitably. They have vast resources in comparison with the largest independent trucking firms.

Mr. REID: Therefore, you have, approaching, the classical situation which an economist would call a free competitive part of the economy, where the railway have very little competition.

Would you say that this bill is, in effect, an attempt to get competition artificially into the transportation industry?

Mr. MAGEE: No, I do not think it is. I think that the bill, as it has been drafted, shows a considerable concern for the protection of competitive forces. There might be artificiality in that regard, but that protection comes only if rates made by a mode of transport against another mode are non-compensatory. If they are non-compensatory then those rates are subject to attack and to change by the commission.

Mr. REID: Thank you. My time is up.

Mr. SHERMAN: Mr. Magee, is the Canadian Trucking Associations saying, in paragraph 47 of the short brief, that the railways should be ordered to get out of the trucking business?

Mr. MAGEE: No, sir. I would like to clarify that. I am glad that question has been asked. The provision that we have proposed with regard to grandfather rights would apply to investment which the railways have at present in the field as well as to the independent trucking firms.

What we are saying is that now has come the time when Parliament should take a hard look at the railway expansion into the trucking field and decide what, if any, policy should be followed for the future.

Mr. CANTELON: I would like first of all to congratulate the Trucking Associations for the very comprehensive brief which they have presented and particularly for the fact that their recommendations are so concrete.

The Minister of course in his usual inimitable manner, has gone over practically everything and has pointed out that they will accept a great many of them, which, I think proves even more fully that the brief is a very excellent one.

I was interested in three things in particular in the brief—some others too but I think I had better confine myself to just three.

The first one was the interprovincial truck operations, and, in particular, I noted what the Minister said about this, that there would be a great deal of

difficulty in doing a great deal to control traffic which originates in one province against the wishes of the province. I think I am paraphrasing reasonably closely. On page 16 of your comprehensive brief you have a paragraph at the bottom which intrigues me particularly. You point out that in Ontario there would seem to be little difficulty, but that the Quebec transportation board controls traffic which both goes out of and comes into the province.

Have you any suggestion at all on whether the Quebec transportation board would be liable to agree with the transportation commission controlling the regulation of rates into and out of the province of Quebec?

Mr. MAGEE: I think the answer is that the jurisdiction belongs to the parliament of Canada, not to the provinces, and that part 3 of the bill, according to our legal advice, is perfectly within the legal powers of parliament to enact.

The decision of the judicial committee of the Privy Council in the Winter case confirmed that the jurisdiction over extra-provincial trucking, the cross-border trucking, was federal, and it went further. It said that the intra-provincial parts—the purely provincial parts—of an extra-provincial undertaking also fell within the jurisdiction of parliament; so that when the Privy Council rendered that decision quite a large chunk of the Canadian trucking industry was found to be within the jurisdiction of parliament and not of the provinces.

I can see no legal grounds on which any provincial government could say to Parliament, "You are invading something which belongs to us, or which is under our jurisdiction".

Mr. CANTELON: You, of course, understand that there are other difficulties in this connection. There may be no legal grounds, but there does seem to be a feeling in the provinces that they would like to control all their own business; and this is a real problem.

Mr. MAGEE: I think you have put your finger on one of the very difficult parts of implementing extra-provincial truck control, because there is a split jurisdiction between the purely local or provincial carriers, who come under the provincial jurisdiction, and the cross-border carriers who come under federal jurisdiction.

The Minister has said several times at these hearings that for part 3 to work and to be a success we must have the cooperation and good will of the provincial governments. I am quite certain that, having made the decisions on this legislation that Canadian Trucking Associations has made, every provincial trucking association will do its best to convince its provincial government that this cooperation should be forthcoming. In fact, if it is not we will have a chaotic situation.

Mr. CANTELON: I hope, indeed, that it will be the case that we can persuade every jurisdiction to accept this control.

I am interested, secondly, in what you say about the east-west bridge subsidy, that you think you can create a real competitive climate there. What bothers me about it is that I have driven this area quite a few times, not only last year but for quite a few years, and the roads are not what I would consider actually suitable for very heavy quantities of traffic. I do not know whether there is any solution to this. The solution seems to be to persuade the province of

Ontario to get busy on the trans-Canada highway. Perhaps you have some thoughts on this.

Mr. MAGEE: There are still problems with respect to the standard of highways in certain places, but despite those problems there has arisen, since the railway strike of August, 1950, a very strong competitive trucking industry on the east-west haul.

Mr. CANTELON: You mean through that particular area, north of the lakes, and from Winnipeg, say, to North Bay?

Mr. MAGEE: Yes. We have runs from Toronto to Winnipeg; Toronto to Regina; runs from Montreal through to Vancouver. These are regular scheduled services operated by substantial firms, linked up with teletype, and it is a very regular, high standard of operation.

The view expressed by the MacPherson commission regarding the workings of the bridge subsidy in relation to east-west trucking was that that trucking development had been retarded by the bridge subsidy, and this was one of the reasons why they recommended that it be repealed.

Mr. CANTELON: Speaking as a westerner and with the national interest in view, it seems to me that the low rates there must have been advantageous to the west, and probably to the people who were selling the products in the west and moving them as a result of the bridge subsidy.

Mr. MAGEE: I agree that low rates are advantageous to the economy of the west. Our point is that competitive forces should be left to work out the rate situation, the railways and the trucking industry competing with each other, and that there should not be an artificial intervention by the injection of subsidized reduction of freight rates.

If it is going to be the policy that we must have a freight rate reduction subsidy, we must have lower rates even than the ones that exist, then we say what the MacPherson commission said, and that is that when assistance to a region is provided through a transportation agency it should be provided on a non-discriminatory basis, so that the shipments of all carriers are affected. If you confine it to the shipments of one carrier and you say to that carrier, "You cut your rates and parliament will compensate you for the reduction you make," you are giving that carrier a competitive advantage in a discriminatory manner against the other modes of transport. That was the MacPherson commission's view.

Mr. CANTELON: Of course, I am prepared to agree with that, but I still feel that all types of transport, including the truckers, are of extreme national importance, particularly for those of us who are located a long way away, and that low rates are not just advantageous to the west or to the maritimes, but that they are advantageous to the whole of the dominion; and I question whether the competition that you envisage would take place there would keep the rates as low as they are today. Naturally, this is the ground on which I complain.

Mr. MAGEE: Dr. Gizbert has made a study of this particular part of the situation. Perhaps he could say something about it.



Dr. K. W. STUDNICKI-GIZBERT (*Associate Professor of Economics, York University*): My answer to this question would be that, first of all, I absolutely agree with you that transport is designed to be used as a means of creating national markets in the existing regions. The point really is: What do you want to do in the long run and whether, by allowing a greater degree of competition, you will in the long run achieve greater efficiency? Let me put it in a slightly different way. It may be quite true that today you would achieve less of a reduction by competitive forces than by a subsidy, but by allowing a greater degree of competition you put another incentive on a competing mode of transport to get better equipment, better terminals, and, in the long run, the real costs of a reduction are a factor in the new equipment. The labour wages are going to go up, and you have to get new investment into a certain area.

Mr. CANTELON: You are suggesting the giving up of a sure thing for a potential profit in the future?

Mr. STUDNICKI-GIZBERT: Yes; and I fully sympathize with this point of view. My only problem is I can see the upward pressures on transport costs simply because transport is highly labour incentive. I would like to see a greater incentive for investors to put money into new modern equipment, because in the long run it does not really matter whether the shipper pays it as a shipper, which comes out of the pocket of a consumer, or whether the same consumer pays it as a subsidy with his taxes. The only way to deal with this problem is to get effective action, as you mentioned about highway improvements.

Mr. CANTELON: Of course, the point there is that in one case you are spreading it over the nation, and in the other case you are taking out of the pockets of one particular group. However, I think I am prepared to leave it at that.

The other section that I wanted to ask about is one that my compatriot asked as a supplementary just a moment ago, and that is the railway entry into the trucking field and the fears that you have about this railway entering into the trucking field, which I think seems to be quite justifiable, especially when as you say in section 44, they can achieve control merely by having one trucking firm competing with as many as six others. Therefore, you believe there should be regulation of rail entry into the trucking field and that without this the bill will be completely ineffective.

In connection with this, I would refer to the recommendation that you make at the top of page 14. The Minister, if I remember correctly, said that this had quite a lot to commend it. Reading the second one, in particular, it seems to me that this would put the railways out of the trucking business altogether, except for just lines within a city, or perhaps you might use lines, say from my town to a distribution area, for a few miles around. Is that what the intent of this section is?

Mr. MAGEE: The wording of the proposed amendment is extreme, because we think that the problem is an extremely serious one. We have used the words "pick-up and delivery in urban centres," and I would think that when you speak of hauls of, did you say, two or three miles—?

Mr. CANTELON: Well, they might go 20 or 30 miles.

Mr. MAGEE: Twenty or 30 miles would still be pick-up and delivery in urban areas.

Mr. CANTELON: That is what I would consider it to be, in an area like that. Therefore, it is not intended to prevent that?

Mr. MAGEE: No, it is not.

Mr. CANTELON: But if I understand correctly it would prevent, for instance, the moving of freight into Saskatoon and then to my home town, which is about 130 miles from Saskatoon. They move material out in a freight van or truck and distribute it out of various communities. You would not permit this by this regulation?

Mr. MAGEE: I do not think that would be permissible under the wording of this proposed amendment.

Mr. CANTELON: I want to get this clear and I wanted to know how you did interpret it.

The ACTING CHAIRMAN (*Mr. McWilliam*): If I may interrupt you for a moment, Mr. Cantelon, your time has expired, but if you are not going to be too much longer, I would let you continue.

Mr. CANTELON: I thought I had about another minute.

The ACTING CHAIRMAN (*Mr. McWilliam*): You are well over your time. Perhaps you could come back later, if you wish.

Mr. Horner, you are next.

Mr. HORNER (*Acadia*): First of all I would like to say that I commend you on your brief, and your understanding of the bill convinces me that you have some knowledge of the practical application of it on the modes of transportation, and particularly the freight haul.

In a sense, Bill No. C-231 suggests that there is ample competition to ensure protection for all areas and practically all shippers. Am I right in that summation of the bill?

Mr. MAGEE: I think that would be correct.

Mr. HORNER (*Acadia*): But your main theme, as you suggest on page 2 of your brief, is the preservation of strong competitive forces in the transportation field, and the amendments you suggested in your brief are to preserve and maintain these competitive forces.

Mr. MAGEE: Yes.

Mr. HORNER (*Acadia*): Could one suggest, then, that you are somewhat doubtful about whether or not there is ample competition in the transportation field to give protection to the shipper for the various areas of Canada without your recommendations? In other words, if the bill went through without any changes as you suggested, is there enough competition?

Mr. MAGEE: I think that the bill, if it goes through even as it now stands, utilizes all the competition which is available in Canada at the present time. I do not see anything in the bill—

Mr. HORNER (*Acadia*): I realize it utilizes all the competition at the present time, but in your opinion is there enough competition at the present time to warrant this Parliament passing this bill?

Mr. MAGEE: With the proviso that there must be provision with legislation of this kind, to protect those shippers who have no recourse to any form of transport but one, I would say Yes. The bill recognizes that there is a very pervasive competitive situation in Canada, right throughout the country, and it makes some provisions to see that these competitive forces are not attacked or wiped out from within the transportation industry by the strong moving against the weak—and I am speaking in terms of economic strength. It also makes provision for the shipper who does not have alternate transport to be protected from rates that are unreasonable and that his particular firm cannot bear. As a matter of fact, it recognizes a captive shipper situation not only with regard to railways but in respect of trucking. There are provisions there for a shipper who may only have a truck service available.

Mr. HORNER (*Acadia*): I agree, but on page 16 of the brief you suggest there should be changes made with regard to the general definition of a captive shipper. I think I am correct in paraphrasing your remarks in this manner; if I am not, please correct me. You suggest that instead of it being 100 per cent, particularly your main brief, that it should be 50 per cent or more. The point I am trying to make is, is there enough competition, is there enough protection from this competition if it is less than 100 per cent?

Mr. MAGEE: I have had Dr. Gizbert studying this question very carefully because I anticipated some questions on this very point. With your permission, Mr. Chairman, I would like to ask him to speak now.

Mr. STUDNICKI-GIZBERT: Mr. Horner, I will deal with your first question, is there enough competition. I think the answer here would be that probably there would never be enough viable competition in any industry and that is why we have an anti-combines act and measures to protect competitive situations. Now, coming to the specifics, I feel that with the few sort of islands of monopoly which we recognize as captive shippers, we have a situation which does approach a competitive situation. Now, coming back to the bill, it provides, even now, one safeguard which gives fairly wide powers to the commission to investigate, and I would hope that at least some of those investigations would be made public.

Mr. HORNER (*Acadia*): They do not have to be made public.

Mr. STUDNICKI-GIZBERT: I realize that.

Mr. HORNER (*Acadia*): They "may" be made public but the word "shall" is not used.

Mr. STUDNICKI-GIZBERT: I hope you gentlemen will make sure that some of them will become public and I think safeguards of the type the commission and the government are taking will be moving along with changes in the situation.

Now the second type of safeguard is the safeguard proposed by Mr. Magee and the Canadian Trucking Association which attempts, really, to preserve the competition which already exists. It is very much in line with the over-all trend of legislation to preserve competition against monopoly everywhere else, applied to the transport position.



Mr. HORNER (*Acadia*): What you are saying, Mr. Gizbert is that if—I want to reach an understanding with you—the bill passes without the suggested recommendations to maintain competition or to preserve competition, as this brief suggests, perhaps through the work of Parliament and through the work of economic forces, some of these conditions will come about because of necessity. Am I right in saying that? In other words, because of necessity, the 100 per cent may not be reduced to 50 per cent or more but may be reduced in that direction.

Mr. STUDNICKI-GIZBERT: That is quite likely, Mr. Horner. I would say there is always a possibility of forces moving in the other direction. I am quite sure that the situation will bear watching. I think we are going to get a decent framework within which the situation can be worked out. But I would say all it really does is provide a framework.

Mr. HORNER (*Acadia*): I realize where we are, Dr. Gizbert, and all I can say is I hope that if some of the amendments you suggest in this brief are not carried out that the forces work in the economy to effect some of them. How long it will take and who will suffer while the forces are working and before Parliament takes action to amend the bill, I do not really know. I hope it is not the trucking associations.

However, I want to go back to page 14 and the second part of clause 47. There have been a number of questions asked on this and I want to clearly understand what you are saying here. Are you saying here, Mr. Magee, that railroads that now own Husband Transport, Smith Transport, Midland Superior and other fleets of trucks should be asked to get out of that mode of transportation because of their economic security in the railroad industry. Am I right in this assumption?

Mr. MAGEE: No, Mr. Horner, we have not suggested in the submission—and it is not to be inferred from our proposed amendment—that the railways divest themselves of ownership of those highway transport facilities which they own at the present time.

Mr. HORNER (*Acadia*): What you are saying is they should not be allowed to go any further?

Mr. MAGEE: We are saying they should not be allowed to go any further and if the committee feels that is too extreme then we say, at least, the situation should be dealt with by Parliament in a way that the Canadian Transport Commission will be empowered to watch what is happening in the matter of railway expansion into the trucking field.

Mr. HORNER (*Acadia*): I have one further question, Mr. Chairman.

Mr. MAGEE: Could I add one point. I think I said watch, I should have said watch and deal with.

Mr. HORNER (*Acadia*): I understand your position there perfectly, and that is why I am asking no further questions in connection with it.

With regard to the Maritime Freight Rates Act, page 6 of your submission dealing with clause 19 and the following clauses up to clause 25, you are suggesting that this Act, because of the subsidization of the railways, has curtailed and limited the expansion of the trucking industry in the Maritimes. Am I correct?

Mr. MAGEE: That is right, Mr. Horner. That is our conclusion and that was the conclusion of the MacPherson Commission.

Mr. HORNER (*Acadia*): Now, why is it your conclusion? I am not interested in the MacPherson Commission. Is it because the subsidization has kept rates low in the Maritimes and because of the low rates the trucking industry has not been able to become established? Am I right there?

Mr. MAGEE: I think it is more a case that the railways, through the M.F.R.A. subsidy, have been put in a very advantageous and discriminative position in the Atlantic provinces.

Mr. HORNER (*Acadia*): In their rate setting?

Mr. MAGEE: In their rate setting situation. This is why the MacPherson Commission recommended that the intra-Maritime subsidy be abandoned and that the subsidy continue on the westbound interprovincial haul and that on that haul the shipments of all carriers be eligible for the subsidy.

Mr. HORNER (*Acadia*): Then one could say, if the subsidy was done away with, that the short term result would be an increase in freight rates but over the long term the trucking industry might become established, become competitive and hold the rates or maybe even reduce them? Am I right in this summation as to the future application of the bill?

Mr. MAGEE: To be quite factual about it, many of the rates now charged by the railways in the Atlantic provinces are well below what they are required to be under the Maritime Freight Rates Act and the reason is the existence of truck competition. In respect to that segment of traffic—it is quite large—if the Maritime Freight Rates Act was taken out tomorrow, it would not affect the rate situation very much. There might be some tendency for the rates to rise.

Mr. HORNER (*Acadia*): I cannot understand that, Mr. Magee, I cannot understand why the rates are below what they must be because of the Maritime Freight Rates Act and still the trucking industry has not been able to become established there.

Mr. MAGEE: Because the railways are stronger in that area and are able to extend their rate cutting over a much greater area with \$13 million poured in there every year on claims they submit on their rate reductions, which they are required to make under the M.F.R.A.

Mr. HORNER (*Acadia*): What you are saying generally, to use a railroad term, is that competition at the market-place allows the railroads to have an advantage over the trucking industry? Would this be a generalization which could be, perhaps, correct?

Mr. MAGEE: I would say the Maritime Freight Rates Act is producing, as the MacPherson Commission found, an artificial and unfair discrimination against the trucking industry in the Maritime provinces. Dr. Gizbert has something he would like to say on this.

Mr. STUDNICKI-GIZBERT: Mr. Horner, just to bring in a few figures, I made a little calculation here and it is subject to all sorts of uncertainties but the trucking ton-miles per head in Quebec is about four times the trucking ton-miles per head in the Atlantic provinces. The comparison with Ontario is even worse, it

is 588 versus 120. Now why is it so? I think the explanation is very difficult. One of the problems is the chronic underinvestment in all types of businesses in the Maritimes.

Mr. HORNER (*Acadia*): What you are saying, Dr. Gizbert, is that if the Maritime Freight Rates Act is removed freight rates may well go four times what they are now?

Mr. STUDNICKI-GIZBERT: I am quite sure they would go up and this is why, if I understand the C.T.A. submission correctly, the submission here is to extend it to all forms of transportation.

Mr. HORNER (*Acadia*): I have one other question for you, Mr. Magee. Are the network of highways in the Maritimes good enough to allow you to compete effectively with the railroads if the Maritime Freight Rates Act was removed without major expenditures on highway construction?

Mr. MAGEE: I think the highways in the Maritimes are vastly improved over what they were five or six years ago, and they can sustain the operations of the **trucking industry**. I am sure the highways will be improved and I am sure we will continue to pay our full and fair shares of taxes—

Mr. HORNER (*Acadia*): I fully realize that but I wanted to know what the position was now.

Mr. ALLMAND: This leads you right into the questions I was going to ask. In considering the promotion of competition between the trucking industry and the railroads, we have to consider the availability of interprovincial highways or how to make them available. I was going to ask you how does the trucking industry, in the different provinces, in a special way, help pay for the construction and maintenance of highways—I mean, above and beyond what the ordinary citizen pays because you are using the highways for profit. So for my own information, in what special ways do you help pay for construction and maintenance of roads?

Mr. MAGEE: We are paying much higher taxes than the motorist for the privilege of making use of those highways.

Mr. ALLMAND: What kind of taxes, income taxes?

Mr. MAGEE: Public commercial vehicle fees.

Mr. ALLMAND: Yes.

Mr. MAGEE: The gasoline tax—and we can get approximately five or six miles to a gallon compared to what can be obtained in a private automobile. We make a very tremendous contribution to the building and maintenance of highways in all provinces. If we were not a factor we would not have some of the highways and super highways that we have today.

Mr. ALLMAND: I have read reports—I do not know whether they are correct—that the trucking industry is in fact being subsidized through the construction of highways by the state and that they do not really pay in proportion to what they get back. What is your comment on this?

Mr. MAGEE: Our comment is that we pay a full and fair share for the use of the highways and we welcome any objective study of the problem to pursue that matter. I have said that to this committee many times before.



Mr. ALLMAND: Have you any proposals or recommendations with respect to the further construction of interprovincial highways?

The CHAIRMAN: Mr. Allmand I will have to rule you out of order on that question because we are not involved with the construction of interprovincial highways here. The Canadian Construction Association has already prepared a brief dealing with national highways policy, including regional and national highways, and they were not allowed to appear before the committee because it is outside the scope of this bill. We are dealing with principles in the bill; we are not dealing with the construction of highways but transportation.

Mr. ALLMAND: With all due respect, Mr. Chairman, I do not see how we can adopt a bill which is going to promote competition, or even accept amendments that will promote or increase competition, between a trucking industry and the railways if we do not consider how we are going to provide the highways.

The CHAIRMAN: That is not a matter dealt with in the bill and I am only concerned with the contents of the bill which has been referred to this committee. I realize it is a live issue but the scope of the bill restricts us from discussing the construction of highways.

Mr. ALLMAND: I will move on to another question then. Mr. Magee, there are recommendations in your brief which would control the merger or the taking over of trucking companies by railroads. It is my understanding that many trucking companies are either owned outright or are subsidiaries of many large manufacturing firms in Canada and I am wondering if any of these trucking companies belong to your association; I am also wondering whether you would have some sort of control in the takeover and amalgamation of trucking companies by large manufacturing and other businesses.

Mr. MAGEE: I am not sure whether you are referring to private trucking operations, where the shipper owns a large truck transportation department for the movement of his own goods or whether you are saying that there are manufacturing concerns that are in the trucking business?

Mr. ALLMAND: I will give you an example. This morning, in another committee, examining the wholly owned subsidiaries of Aylmer foods, there was a company which they fully owned. It was a transportation company which they used for the transportation of their own goods but this trucking company also transported other types of goods, too. But, 50 per cent of its business was taken up with the transportation of food produced by that company. Now, I understand there are many other examples of this and I am wondering if you want to have some sort of scrutiny or control of the railways buying trucking companies and whether you would extend the same principle to other large manufacturing and business concerns.

Mr. MAGEE: I think the principle is a little different because when we are talking about the competitive forces in transportation we are aiming at the preservation of those forces by a proposal that the various modes be separate, independent and competitive one with another. I do not think that the situation is exactly the same.

Mr. ALLMAND: It may not be to the trucking companies, sir, but do not forget that the railways rely on these manufacturing and other types of businesses for

their business. Now, if we were to allow, let us say, as an extreme example, businesses to own their own trucking companies, and adopt all the amendments that you want adopted to protect the trucking industry, you might very possibly take a lot of the business away from the railway. You would promote a situation where the railway would not be able to obtain the business of these industries because the trucking companies were owned by food companies, furniture companies, ore companies, and so on.

Mr. MAGEE: We are really coming to the area of private trucking operations because whether it is a trucking firm that is a commercial publicly licensed firm, carrying not only the goods of the shipper but able to carry the goods of other shippers, or whether it is a private trucking subsidiary like Canadian Breweries Transport Limited, which is the trucking arm, as it were, of the Canadian breweries but not a public commercial vehicle carrier—it is a carrier of the products of Canadian breweries, this is a form of competition that faces both the trucking industry and the railroads and, in this respect, we face common competitive problems.

Mr. ALLMAND: That is why I was asking you whether you think your recommendation with respect to the railways should be applied to other amalgamations?

Mr. MAGEE: In many provinces now the transfers of shares of companies in the trucking field are the subject of regulation by the provincial regulatory boards, so that the regulatory board in many of the provinces is in a position to look at this particular situation to which you are referring.

Mr. ALLMAND: I have one final question. Is there any kind of freight that you think the trucking industry could carry which would be more appropriate to the trucking industry to carry interprovincially, and which you would probably take over, if the bill with your amendments were passed? In other words, do you think there is a type of business that the railways are carrying now interprovincially by rail that you could carry in a more efficient way by truck if the bill were passed with your amendments?

Mr. MAGEE: I do not see the bill as a promotional mechanism for increased truck traffic after the bill passes. This is not my understanding of the bill from my study of it. The bill looks at the competitive factors which exist in transportation and, beyond maximum and minimum rate control, in effect, tells the various forms of transport to go to it and compete. We are doing that now and we will continue to do it when the bill passes, but the bill will ensure by the minimum rate control that rates below cost or noncompensatory rates are not used by any one mode of transport to put another mode out of business—a mode which may not be nearly as strong economically, but which may actually be the more efficient operator.

Mr. ALLMAND: You have made recommendations with respect to the Maritime Freight Rates Act, and I am just wondering if the changes were made that you suggest what type of things do you think that you could carry that you do not carry now? In other words, how are you being discriminated against?

Mr. MAGEE: How are we being discriminated against?

Mr. ALLMAND: Yes, with respect to the carrying of certain types of goods.

Mr. MAGEE: I could not start now to specify the commodities that we might carry in the future after the bill passes and, furthermore, speculation of that kind is very dangerous for the reason that the transportation industry has become so competitive that what we have come to regard, for example, as truck traffic could be subject to change. You used to hear in the trucking industry that automobiles, for example, were truck traffic. The automobile carrier comes up to the shipper's door, or showroom door, and off come five automobiles. It is just a natural for the trucking industry. Well, that is what we thought, until the railways came along on long hauls with something better, which was the tri-level freight car.

These competitive developments, development of technology, the improvements that are going on all the time—each mode matching its ingenuity against the other in trying to produce something better—really makes it impossible to speculate on what will happen in the future in traffic.

Mr. ALLMAND: Thank you very much.

The CHAIRMAN: Mr. Martin.

Mr. MARTIN (*Timmings*): Mr. Chairman, Mr. Allmand raised my point and I certainly do not want to run afoul of your rulings. I think I could couch it in a slightly different way. With regard to the requests contained in this brief of doing away with what the trucking industry feels to be unfair subsidies to the railways, there are many people who feel that, so far as the taxpayers are concerned, they are subsidizing the railways on one side and subsidizing the trucking industry on the other with regard to the cost of buildings and maintaining harbours.

Now, I know that the trucking industry's answer to that is that they pay for their share of this with licences, gasoline tax, and so forth. Has there ever been a study made, or are figures available, of the percentage of the costs that the trucking industry pays in such things as licences and gasoline taxes, as compared with the percentages of the cost of the railways in building and maintaining their roadbeds?

Mr. STUDNICKI-GIZBERT: Not in this country, sir. As you probably know, it is incredibly complicated. I will give you only one example. When the interstate highway program was approved, the congress directed the department of works in the United States to make an investigation of costs and benefits of highways, and allocation of costs to different users. They have produced a study, which is an absolutely excellent one, in about four years after spending over a million dollars on research and so on.

There are two aspects. One is what the truckers pay, whether they pay their fair share or not, and the second aspect is the existence of a highway does give a trucker a certain advantage, a built-in advantage of using a common facility. Once you have those two different things from two different places the difference in the benefits is an extremely difficult question to answer. In Ontario the users now pay slightly more than the cost of highway building. Now, how do you allocate the cost between trucks, private cars, and delivery vans? It becomes a very difficult study which also changes with climatological conditions and changes of climate. I do not think that anyone today can really answer your question. We can give impressions, but this is about all.



Mr. MARTIN (*Timmins*): Of course, we must realize that a highway that is adequate to handle ordinary passenger traffic will be pounded to pieces in a matter of weeks with a 60-ton truck. Therefore, the highways that are adequate for the general traffic are not adequate for transport.

The CHAIRMAN: We had better cut off that aspect of it. Mr. MacEwan?

Mr. MACEWAN: I would just like to ask Mr. Magee if he believes the Maritime Freight Rates Act should be rescinded.

Mr. MAGEE: The Canadian Trucking Associations has taken no policy position on that point. It merely says that if the act is to be continued then the aid to the shippers of the maritime provinces should be equitably dispersed to all carriers.

Mr. MACEWAN: What you are saying here is that if the Maritime Freight Rates Act is going to continue, as it is, under this act for two years that truckers should be included.

Mr. MAGEE: That is correct.

Mr. MACEWAN: With regard to the Freight Rates Reduction Act, you recommend that the rates which were reduced under this act should be cancelled.

Mr. MAGEE: That is correct.

Mr. MACEWAN: Why?

Mr. MAGEE: Because the Freight Rates Reduction Act, in our opinion, was an artificial intervention into the pricing situation in the transportation field and was conceived and enacted without any regard for the fact that there is in Canada a competitive transportation system. The railways were made the chosen instrument of aid to a certain group of shippers. When we appeared before the standing committee on railways in 1959 to oppose the Freight Rates Reduction Act that was our view and, as a matter of fact, we warned that if that act passed the amount of subsidization would certainly increase before the transportation problem was ever sent to parliament in the form of legislation, and that happened. Seventy million dollars more came into the situation so that we now have, right at this time, about \$100 million in subsidies to the railways which took shape originally in the Freight Rates Reduction Act, but all of which are traceable to the railway wage problem. The \$20 million subsidy came to roll back the freight rate increase which was granted by the Board of Transport Commissioners in 1958 following the representations of the railways regarding the agreement they had signed with the non-operating unions.

Mr. MACEWAN: Along with Mr. Allmand's suggestions, do you agree that the type of goods which your trucks can carry in the maritime area is different than in, perhaps, the more highly industrialized areas of Canada, and—I am going along with what Mr. Horner asked you—do you believe that this will enable trucking firms to compete as effectively with the railways in the maritime areas as in other areas of Canada, particularly in Ontario and Quebec?

Mr. MAGEE: Well, I think the repeal of the Maritime Freight Rates Act would put the trucking industry on a much fairer footing in the maritimes and

would give that industry a chance to bring its full strength to bear in the competitive situation.

Mr. MACEWAN: Finally, do you believe that the study which the Minister referred to today, which is being carried out, will be of assistance and will take into consideration not only railways but truckers and so on, and that this study should be of great assistance to the industry in the area?

Mr. MAGEE: Yes, we are pleased that the study conducted under the Atlantic Development Board is an objective, impartial study and that the problems of all modes of transport in relation to the maritime economy are being looked at under that study. But, you see, we have been through so many studies of the maritime transportation problems. There is a submission which we presented to the interdepartmental committee on maritime transportation problems in 1958 which took us many months to prepare and involved a great deal of study. We seem to keep going through studies, and we seem to keep getting from the Department of Transport the answer, "Well, look, you have a good case about the outdated aspects of M.F.R.A. but, you see, we are having another study into the maritime transportation problems".

I have had a very hard time with my president, Mr. Gouin. He was at the Maritime Motor Transport Association convention at Saint John just recently and, before an angry group of maritime truck operators it was stated that, "We are having another study and it will only take two years, and then we will get a final disposition of this problem."

Mr. MACEWAN: They are very serious in the maritimes. Thank you, Mr. Chairman.

Mr. PASCOE: Mr. Chairman, I have made notes of the Minister's comments and it appears that we are going to have very sympathetic consideration to our recommendations so I will not pursue those lines. There are one or two questions that I would like to ask. One is the follow-up on the bridge subsidy and I have been asking this question of most of the witnesses. Do you envisage at all perhaps a piggyback service whereby the trucks would be going piggyback across this northern Ontario route adding to the revenues of the railways and also cutting down on the expenses of trucking. Do you see that working out to the advantage of the prairie provinces?

Mr. MAGEE: There is piggyback service offered to the west by the railways which is being used by some of the trucking firms and, of course, when the railways can attract the traffic it is useful to them because it does bring back on to their equipment some portion of the revenue that otherwise would elude them all together.

Mr. PASCOE: Well, this piggyback service across northern Ontario saves the truckers money too.

Mr. MAGEE: It saves us the operating costs of our tractors and enables us to cut down on our motive power fleet, but when railway strikes come then we think. "My goodness, maybe we went a little too far in the piggyback."

Mr. PASCOE: So you envisage still continuing trucking across northern Ontario.

Mr. MAGEE: Yes.

Mr. PASCOE: Much the same way as it is now?

Mr. MAGEE: Piggyback is a very competitive business and there are many factors which affect us. There is another field which looks like a natural, now that the railways have got it going, but again it will be subjected to other pressures. Better trucking equipment will come and if the truck operator finds it is more economical to send it by highway rather than move it on piggyback then he will switch from piggyback and go back to over the road operations.

Mr. PASCOE: On page 9 of your main brief you say the units forming part of this industry are diverse in size. Do you see that you have pretty well reached the maximum size now or do you see even larger trucks than you have now?

Mr. MAGEE: It is difficult to tell but it will have relation to the standard of highways which are built in the future. The capacities have been increased gradually as the provincial regulatory authorities think that the highways and the public can stand this kind of increase.

Mr. PASCOE: Also on page 9 you say: "Parallel with the growth of traffic volume, the trucking industry extended its maximum length of haul." How far would one driver take these big trucks now on an average haul?

Mr. MAGEE: On a long haul he probably would travel with the rig all the way except for rests—there would be rest periods—or it might be a two man operation with a sleeper cabin.

Mr. PASCOE: I have just one more question Mr. Chairman. I am reading from the last edition of *The Rural Councillor*, under the heading "Is our transportation industry in chaos?" It is a publication from Saskatchewan. The last paragraph states: "The transport industry generally could stand a thorough investigation and overhaul. We believe that in Saskatchewan a commission of inquiry into the whole field would be justified." With regard to complaints about slow deliveries, it goes on to say that the trucker did not seem a bit concerned over certain cases. Do you agree with that or do you think it is a fair comment?

Mr. MAGEE: I suppose if I agreed with it I would not be here at the next hearing. I think that the standard of truck service in Saskatchewan is good from what I have heard from the shipping public. I have attended the meetings of the Canadian Industrial Traffic League in Saskatchewan, and I have not heard these complaints. But if they exist, they certainly should be followed up and the situation rectified.

Mr. PASCOE: Followed up through your association or what?

Mr. MAGEE: Yes, it can be followed up through the association or through the Saskatchewan Trucking Association, because they are the ones who will follow it up.

Mr. PASCOE: I will pass that word on to the writer of the editorial.

The CHAIRMAN: Mr. Sherman will be the last questioner.

Mr. SHERMAN: Mr. Magee, the trucking industry evidently feels that it is the victim of some discrimination where its appearance at hearings into transportation problems and railroad problems is concerned. I refer to paragraphs 52, 53 and 54 of the short brief where you deal with the status of the trucking industry as a party interested. You refer in paragraph 53 to an application of the



Canadian Trucking Association which was dismissed on the grounds that the associations did not constitute a party interested within the meaning of the Railway Act. Could you tell us what type of application that was, and what the association was concerned with?

Mr. MAGEE: We alleged in a submission to the Board of Transport Commissioners that the railway rates complained of were in violation of section 334 of the Railway Act, in that they were lower than necessary to meet the competition and that they were not compensatory. I must say in fairness to the Board of Transport Commissioners that in this particular case, after they held the hearing on the legal aspect, which was the only aspect discussed at that particular hearing, and then issued their judgment, that we were not a party interested, they said that under the Railway Act they had the power of their own motion to investigate any matter pertaining to railway rates. Therefore, they conducted an investigation and called us as witnesses, but we were not there as a party. We were not able to invoke the procedures of the board, as of right.

Mr. SHERMAN: To your knowledge, would there ever have been a case where a reverse situation would have prevailed, where the trucking industry was applying for certain considerations, where the railroads would be affected, and where the railroads were designated as a party that was not interested?

Mr. MAGEE: I do not know of a case, but I do know where trucking is regulated provincially, the railroads have the right to appear at the hearings. As a matter of fact, they have the right to appear and oppose the granting of an application to a truck client on the grounds that there is already sufficient transportation by reason of the existing rail service.

Mr. SHERMAN: I presume that in your recommendation on this particular point, in your very excellent brief, that what you really are asking for is a reciprocal recognition of the fact that the railroads and the truckers both are parties interested when either is making an application pertaining to the long haul transportation industry in Canada, where the business of the other form of transportation is concerned as a competitor and is involved from a competitive point of view. Do you think that both the trucking industry is a party interested where the railroads are concerned and, equally, the railroads are a party interested where the truckers are concerned?

Mr. MAGEE: Yes; generally speaking in Bill No. C-231, the rights of complaint are quite impartially set out and the railroads will have just as much right to complain against a trucking situation to which they object, if it comes under this act, as we would have to complain against them.

Mr. SHERMAN: Thank you sir.

Mr. Howe (*Wellington-Huron*): I have a short question, Mr. Chairman. This is in connection with the paragraph on the Lord's Day Act. We are all interested in this, but the provincial governments, in particular, are very much aware of the weekend traffic problems, and this is the area in which I would be a bit perturbed, in allowing certain trucking to carry on. You maintain that it costs unreasonable delays and additional transportation costs. What percentage of your industry would be involved in this type of thing, and how many of your additional people would be given the permits to go on the highways on Saturdays and Sundays?

Mr. MAGEE: It would not be a large percentage because of the types of operations to which the Lord's Day Act gives a particular difficulty and, furthermore, I could not be sure how much, because in our amendment we are proposing that this be a decision of the Canadian Transport Commission, and even if the amendment was adopted and put into the act, there would be no certainty that out of 10 companies that might apply, all 10 would have the right to conduct operations which formally would have been in violation of the Lord's Day Act. There is another situation that we should have mentioned in the submission, and that is the provincial governments, from a traffic standpoint, in our view, would have the right to regulate traffic at the weekend, should any problem arise in that regard.

Mr. HOWE (*Wellington-Huron*): Would they have control if this inter-provincial trucking comes under this commission?

Mr. MAGEE: I am not a lawyer and, therefore, I cannot answer with certainty, but the Privy Council decision in the Winner case did appear to indicate that the traffic regulation, even over extraprovincial trucking—purely traffic regulations of putting your hand out or signalling a turn and that sort of thing—would remain with the provincial authorities. I want to emphasize that as a matter of good public relations, the trucking industry, in drawing this problem to the attention of the Committee, has no intent or desire to flood the highways at the weekends with trucks. Even if it was our intent and desire, I think we would be very foolish to come here and try to create a condition like that.

Mr. HOWE (*Wellington-Huron*): Yes, I think you would get a great deal of public reaction.

Mr. MAGEE: I agree with you. Anyone of us would feel that way in any crowded area where there are many hundreds and thousands of passenger cars on the road. We are thinking in terms of the long haul operations, and we are thinking of a truck which may be far away from any traffic condition, travelling in interprovincial transport starting perhaps on a Friday or Saturday, and we see no reason why that operation should not be able to continue on Sunday. It can be regulated by the Canadian Transport Commission under this amendment, even to the extent of saying, "We will let you go so much further and then in a certain heavily trafficked area, we are not going to let you operate between such and such an hour."

The CHAIRMAN: I would like to thank Mr. Magee, on behalf of the Committee, for your presentation. You have covered a lot of new territory, which comes under this important bill, of course. I would also like to thank Dr. Studnicki-Gizbert and Mr. Gendreau for their presentation.

Before we adjourn, I want to bring to the attention of the Committee that tomorrow morning we will sit from 9.30 until 11 o'clock, to hear the Manitoba Branch Lines Association. Their brief has been in your hands for some time. I would ask you to look at it again this evening so you can raise your questions tomorrow morning. I did want to have an in camera meeting with the Committee and Dr. Armstrong, but we will hold that off until tomorrow morning.

The Committee will adjourn until 9.30 tomorrow morning.

## APPENDIX A-25

IN THE MATTER OF:

BILL C-231 (The National Transportation Act) and in particular Section 469 thereof.

— and —

The Submission of CANADA STEAMSHIP LINES LIMITED in regard thereto.

TO: The Honourable the Chairman and Members of the Standing Committee on Transport and Communications.

CANADA STEAMSHIP LINES LIMITED of the City of Montreal, in the Province of Quebec, Canada, (herein referred to as "CSL") by the undersigned its Counsel, duly authorized for the purposes hereof,

*Respectfully represents:*

1. That it is a federally incorporated line of interprovincial Steam and other Ships falling under the legislative authority of the Parliament of Canada under the provisions of Section 92(10)(a) of the British North America Act and subject to regulation and control by the Board of Transport Commissioners of Canada under the provisions of the Transport Act in respect of its package freight services as to rates and other matters as therein provided.

2. In addition to its scheduled all-water package freight services, CSL operates, in conjunction with the Canadian National Railways, joint rail-water-rail and water-rail services between the head of the lakes and Point Edward (Sarnia). Similar joint rail and water services are operated by the Canadian Pacific Railway Company between the head of the lakes and Port McNichol with its own vessels.

3. The said joint rail and water services provide shippers with an alternative cheaper route in direct competition with the all-rail routes, the freight rates charged in respect thereof being lower than the all-rail rates by a recognized scale of differentials reflecting the inherent disadvantages of the water transport they involve.

4. The effect of the said differentials is to maintain the competitive relationship between such rail-lake-rail and water-rail joint rates and the all-rail rates with the result that when the all-rail rates are lowered or held down, the said lower joint rail and water rates are correspondingly reduced or held down, and *vice versa*, due to the forces of competition.

5. Accordingly, when the Board of Transport Commissioners by its Order No. 96300, referred to in Section 469 of the present Bill C-231, authorized an



increase of 17 per cent in the all-rail rates, express provision was made in paragraph 3 of such order for the preservation of the competitive differential relationship between said all-rail rates and the rail-water-rail and water-rail joint rates in the following language:—

**"3. DIFFERENTIALS:**

Recognized differentials via rail-water-rail and water-rail joint routes may be preserved as far as may be practicable, even though certain rates via differential routes may be lower or higher than would otherwise prevail if such rates were subjected to the increases herein authorized."

6. Moreover when, following the passage of the Freight Rates Reduction Act in 1959, the Transport Board by its Order No. 98424 of July 10, 1959 and its Order No. 101055 of April 27, 1960, also mentioned in Section 469 of the Bill under consideration, respectively ordered rollbacks to a 10 per cent and then to an 8 per cent increase, in each instance by paragraph 4 of the order it was provided as follows:—

"4. The provisions of Order No. 96300 as to Differentials, —apply to revised rates established pursuant to this Order."

7. CSL was a party to the proceedings before the Transport Board resulting in the aforesaid orders and has complied therewith by maintaining the differential relationship between the joint rail and water rates in which it thus participates under the all-rail rates as so increased and then reduced with the result that it has been affected to the same proportionate extent as the railway companies thus called upon to maintain reduced freight rates.

8. In recognition of this fact, CSL has quite properly been paid and received its proportionate share of the compensating subsidy payments heretofore made in common with all other transportation companies affected and has been listed with the railway companies for its due proportion thereof in every determination of the proportionate division of the subsidy monies made by the Transport Board since the passage of the said Freight Rates Reduction Act, as was right and proper to be done.

9. The list of transportation companies to whom payments of subsidy have thus been made is as follows:—

- Canadian National Railways
- Canadian Pacific Railway Company
- Northern Alberta Railways Company
- Algoma Central and Hudson Bay Railway Company
- Canada Steamship Lines Limited
- Toronto, Hamilton and Buffalo Railway Company
- New York Central System
- Chesapeake and Ohio Railway Company
- Midland Railway Company of Manitoba
- Canada and Gulf Terminal Railway
- Great Northern Railway Company
- Napierville Junction Railway Company
- Ontario Northland Railway

As will be seen, CSL is the only non-railway company involved in the hold down of rates made the subject of the subsidy payments, the remainder affected being Canadian and American railway companies.

10. When the Freight Rates Reduction Act was passed, the fact that CSL, a steamship company rather than a railway company, would be equally affected was recognized, the act providing by way of definition that "‘company’ means a transportation company".

11. No doubt through oversight, in drafting Section 469 of the present Bill C-231, the draftsman has, in referring to "eligible companies" and elsewhere in the section employed the expression "railway companies", the effect of which, if unaltered, would be to exclude CSL from participation in its fair proportionate share of the amounts referred to in sub-section (2) of the section, which would be grossly discriminatory and altogether unwarranted in the circumstances.

12. It is understood that Canadian Pacific Railway Company has likewise maintained its similar joint rail and water rates at the lower level produced by application of the recognized differentials and has received subsidy payments in respect of so doing. As a "railway company", however, it would not be affected by the change in wording above noted and would continue to receive proportionate payments provided for under sub-section (2) of Section 469 in respect of the hold down of these particular rates, which, if the language of the said section is not corrected as hereinafter urged, would result in direct discrimination between identical rates held down and charged by two competing transportation companies.

13. The national transportation policy proposed in Section 1 of Bill C-231 provides *inter alia* that each mode of transport, so far as practicable, will receive compensation for the resources, facilities and services that it is required to provide as an imposed public duty. This is entirely consistent with the policy provisions enunciated in Section 3 of the Transport Act as follows:—

"It is the duty of the Board to perform the functions vested in the Board by this act and by the Railway Act with the object of coordinating and harmonizing the operations of all carriers engaged in transport by railways and ships and the Board shall give to this act and to the Railway Act such fair interpretation as will best attain the object aforesaid."

14. CSL has been obliged to hold down the through rail and water rates in question as an "imposed public duty" and in all respects qualifies as an "eligible company" for relief under Section 469 of the Bill in question. If the language of Section 469 is not altered as herein urged, CSL alone of all transportation companies regulated by the Federal Authority and so required to maintain reduced freight rates will be denied the relief contemplated by the section and thus discriminated against and placed in a grossly unfair competitive position without cause, which, it is respectfully submitted, cannot be the intention of Parliament.

15. CSL therefore respectfully submits and urges that the words "railway companies" and "railway company" as employed in the several sub-sections of Section 469 of Bill C-231 be altered to read "transportation companies" and "transportation company" in each instance to conform with the previous legislation and practice.

**APPENDIX A-26**

Submission to  
STANDING COMMITTEE ON TRANSPORT  
AND COMMUNICATIONS  
HOUSE OF COMMONS  
Ottawa, Canada

by  
CANADIAN TRUCKING ASSOCIATIONS INC.



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## INTRODUCTION

Canadian Trucking Associations has made appearances on occasion before Committees of Parliament, mainly the Standing Committee on Railways, Canals and Telegraph Lines, and our first comment is to express our appreciation for the renaming of the Standing Committee on Railways, and calling it instead the Standing Committee on Transport and Communications. 'Transport, indicates Parliament's interest and concern with *all* modes of transport, including the trucking industry, and it is one of the encouraging developments on the federal Parliamentary scene that our industry is now able to come before a Transport Committee of the House of Commons when we desire to make representations on transport legislation.

Canadian Trucking Associations is a national federation made up of provincial associations of 'for hire' trucking firms. The Associations are:

- Maritime Motor Transport Association
- Trucking Association of Quebec Inc.  
(L'Association du Camionnage du Québec Inc.)
- The Automotive Transport Association of Ontario Inc.
- Manitoba Trucking Association
- Saskatchewan Trucking Association
- Alberta Motor Transport Association
- Automotive Transport Association of B.C.

Membership of the provincial trucking Associations now approaches the 7,000 mark and these members consist of the smallest trucking firms and the largest trucking firms in Canada. Between these extremes of size there is a vast number of individual firms of all sizes, providing a wide variety of freight services.

Virtually every type of trucking enterprise which requires a permit from a provincial regulatory board, either issued intra-provincially under provincial legislation, or extra-provincially under the Motor Vehicle Transport Act,

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Canada, 1954, is represented in the membership of the provincial Associations.

'For hire' freight service on local and long distance hauls, between villages and town and country areas, and between all the cities of Canada, is provided by these thousands of trucking enterprises which, combined, make up the Canadian trucking industry.

The total freight tonnage moved between cities by 'for hire' trucking companies in 1963 (the last year for which a figure is available) was 188,132,000 tons according to the Dominion Bureau of Statistics.

What the 'for hire' segment of truck transportation means in terms of total registration, as compared with the output of net ton miles, is seen in comparative figures which attest the strength and contribution of the trucking industry within the transportation industry. According to the figures of the Dominion Bureau of Statistics, in 1963, 'for hire' trucks accounted for 6.1 per cent of all

truck registration in this country—both private trucks and ‘for hire’ trucks—but produced 64.2 per cent of the total net ton miles for the total number of these trucks, private and ‘for hire’.

Estimated employment of the ‘for hire’ trucking industry is well in excess of 125,000 persons on the basis of the Dominion Bureau of Statistics figures.\*

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#### BILL C-231

No submission made by Canadian Trucking Associations since its founding at Winnipeg in 1937 is of such importance to our industry as the one we now place before you. This is so because no legislation of the scope of Bill C-231 has been experienced by the trucking industry since the birth of trucking in the 1920's.

The statement of national transportation policy with which Bill C-231 opens is of transcendent importance. Section 1 commits Parliament and instructs the Canadian Transport Commission that:

“1. It is hereby declared that an economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that, except in areas where any mode of transport exercises a monopoly,

(a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;

(b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expenses; and

(c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation.”

This being the instruction of Parliament to the Canadian Transport Commission there can be no fear that national transportation policy can be maneuvered in a direction oriented to the interests of any one form of transport. On the contrary, after years of strife and controversy in the transportation field, we now see a Bill under which all forms of transport, competing freely with each other, can concentrate fully on the achievement of the best possible transportation service at the lowest overall cost for the people of Canada.

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\*We refer here to direct employment, not derivative employment, since, in the case of derivative employment—employment in associated industries caused by the existence of the trucking industry—there can be much over-lapping, in estimates, with other sectors of the economy.



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The trucking industry supports Bill C-231 in principle. The industry and its Associations will co-operate to the best of their ability in the successful achievement of the national transportation policy.

It is our hope that the Committee will give consideration to amendments which we will propose. In particular—as the Committee would expect—we have recommendations to make about Part III. But no amendment proposed by Canadian Trucking Associations will, in our view, do violence to any principle of this Bill. We do not contest the policy and research role of the Canadian Transport Commission nor the overall authority of the Commission in the regulatory field.

Recognition and acceptance of the competitive role of the trucking industry is evident throughout Bill C-231. The awareness of the competitive benefits deriving from trucking services was demonstrated in the MacPherson Commission's report and in the views submitted by provincial governments to the Commission.

The Royal Commission summarized the transformation of the Canadian transportation scene in the following words:

"Since the end of World War II, the transportation environment in Canada has been transformed from a monopolistic one, very much dominated by the railways, into a highly competitive one in which a number of different modes of transport are vying actively for the available traffic. . . . The consequences of this evolutionary development in terms of growth in the systems' capacity, efficiency and conditions of service have been, as we have emphasized, of substantial benefit to the country as a whole."

Royal Commission on Transportation  
*Report, Volume I, p. 26*

Similarly, the governments of the four Atlantic Provinces stressed that:

"Competition between the different forms of carriage is highly desirable and is of great importance to the industries in the Atlantic provinces."

Maritimes Transportation Commission,  
Royal Commission on Transportation  
*Summations and Arguments, Volume II, p. 9*

The submission of the Province of Saskatchewan stated:

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"The Government of the Province of Saskatchewan wishes particularly to emphasize that any over-all system of transportation regulation and co-ordination must not stifle competition. On the contrary it must be designed and administered so that competition between and with the various forms of transportation will continue to have an important place in the determination of what the shipper will pay."

Government of Saskatchewan,  
Royal Commission on Transportation  
*Summations and Arguments*, Volume II, p. 79-80

The Province of Quebec made the following declaration of principles:

"We believe that the problem the people of Canada are facing, as are the people of Quebec, is not whether we favour one method of transportation at the expense of another. Instead we should ask ourselves: what is the most efficient means of providing needed transportation services from a long term national point of view and what is the best means of providing the services at the lowest possible cost to the consumer, and except in very special circumstances, without adding to the burden of the Canadian taxpayer. Hence, we feel that all five major types of transportation media are the instruments of national policy, with economic and national interests the guiding criteria."

Submission of the Province of Quebec,  
Royal Commission on Transportation  
*Transcript of Evidence*, Volume 124, p. 20,664

These general sentiments were reflected in concrete policy proposals submitted by the governments of the Atlantic Provinces, Saskatchewan and British Columbia. The benefits derived from truck competition were also carefully stressed by other provincial governments.

The preservation of strong competitive forces in transportation is the theme underlying most of the amendments which we propose. We trust that these amendments merit the careful consideration of the Committee.

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## CANADA'S COMPETITIVE TRANSPORTATION INDUSTRY

By far the most important change that has taken place since the end of World War II is the growth of the competitive elements in the field of transportation. Canadian Trucking Associations is among those who, since the early 1950's, have consistently emphasized this fundamental structural change in the transportation market and the policy implications of the change. Appearing before the Standing Committee on Railways, Canals and Telegraph Lines in 1959, Canadian Trucking Associations, in its submission on the Freight Rates Reduction Act, provided the Committee with an analysis of the all-pervasive influence of competition in transport. Later, in its submission to the MacPherson Royal Commission on Transportation, Canadian Trucking Associations documented the growth of competition in transport in considerably greater detail. The Commission's studies confirmed the thesis that, at present, competition is the most important factor in the transport market; since the publication of the Commission's report, the competitive elements in transport have increased further.

An indication of the growth of the competitive elements in transport is provided by the increasing percentage of railway freight traffic carried at the competitive rates and agreed charges. The growth of the proportion of traffic carried at these rates between 1954 and 1964 (the year for which the latest waybill tabulation has been published) is reproduced in the table below:

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# THE CHANGING RATE STRUCTURE OF CANADIAN RAILWAY TRAFFIC 1954-1964

Percentage of traffic carried at competitive rates and agreed charges by  
regions of origin and destination

Regions of origin and destination <sup>a</sup>	Percentage of ton-miles carried at competitive rates and agreed charges (carload traffic)	
	1954	1964
Maritimes to Maritimes .....	26.0	54.8
Maritimes to Eastern .....	23.2	41.8
Eastern to Maritimes .....	5.3	27.7
Eastern to Eastern .....	27.0	71.5
Eastern to Western .....	34.8	73.1
Western to Eastern .....	36.3	54.5
Western to Western (A) .....	14.0	45.0
(B) .....	5.0	12.4
CANADA (All regions) <sup>b</sup> (A) .....	22.3	53.9
(B) .....	16.2	34.1

<sup>a</sup> Rate regions: Maritime region comprises railway lines east of Levis, P.Q.; Eastern region comprises the lines east of Port Arthur and Armstrong, Ontario and west of the boundary of the Maritime region.

<sup>b</sup> Includes small volume of the Western to Maritime traffic and Maritime to Western traffic.

(A) Competitive rates and agreed charges traffic as percentage of total ton-miles *excluding* traffic carried at statutory rates.

(B) Competitive rates and agreed charges traffic as percentage of total ton-miles *including* traffic carried at statutory rates.

Source: Board of Transport Commissioners, *Waybill Analysis*, 1954 and 1964.

It may be easily observed that the proportion of traffic carried at competitive rates and agreed charges has more than doubled during the years 1954 and 1964. At present, if statutory grain traffic is excluded, only Central Canada

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(Eastern region) to Maritimes movements at competitive rates and agreed charges account for less than 40 percent of traffic, and this exception is explained by the fact that about 30 percent of the ton-miles produced between these regions consist of bulk grain movements.

Does it mean that the traffic carried at "normal rates" (i.e. class rates and non-competitive commodity rates) represents the railways' captive traffic? Not at all. A significant proportion of this traffic is accounted for by bulk movements of mine products, where the effective rate ceiling is provided by the competitive position of the mines themselves. Another considerable proportion represents the traffic of shippers whose traffic is largely carried by truck and who do not want to bind themselves to railway service through agreed charge contracts. Furthermore, the freezing of normal rates made, in some cases, a switch-over to competitive rates or agreed charges unattractive but if rail rates were raised such a switch would occur for a substantial percentage of traffic.



The competitive situation in the field of transportation is never static. Highway improvements, especially the raising of load limits, the development of specialized containers for carrying bulk cargo, increase the potentially competitive sphere of the trucking industry. The reverse is also true: the competitive position of the railways is improved by technological advances such as automated terminals, unit-trains etc. Then, of course, the inter-modal carriage of containers exercises a growing influence on transport competition. The main conclusion that can be drawn from this very brief analysis is that the main problem today is no longer to protect, by any restrictive traffic device, the shippers at the mercy of a railway monopoly but to foster and preserve the competitive elements in transport which already exist and whose importance dramatically increases. Protection of a "captive shipper" at the price of his traffic

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being tied to the railway must, therefore, be regarded as a retrograde step. An even more significant adverse influence on transport competition was exercised by the scheme of rate freeze with subsidy, which the proposed legislation commendably would phase out.

*The Competitive Structure of Highway Transportation*

It is extremely difficult to describe briefly the existing structure of the trucking industry. The units forming part of the industry are diverse in size, in specialized functions and in the scope of operations. Some of the operations are complementary to the railways, some competitive. Some of the operations—piggyback and container traffic—cut across rail and truck operations. A comprehensive analysis of the trucking industry is also made difficult by the comparative absence of reliable and well organized data (which is partially explained by the complexity of a heterogeneous industry, and, until recently, by a lack of direct federal interest.) The available data provide, however, a general indication of the industry's growth (see table below):

GROWTH OF HIGHWAY TRANSPORT

Intercity ton-miles performed by Canadian Road Carriers; Selected Years.

Year	Inter-city ton-miles performed (1,000,000)
1938 .....	1,515
1947 .....	4,310
1950 .....	7,597
1954 .....	10,012
1964 .....	18,181

Source: Dominion Bureau of Statistics

Parallel with the growth of traffic volume, the trucking industry extended its maximum length of haul.

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The industry is highly competitive. In addition to inter-carrier competition, trucking firms are intensively competitive with the railways, and to some extent with air carriers and water transportation.

Traditionally, the trucking industry is considered to be a "small firm" industry. This is true only to a certain extent. Many carriers have now achieved considerable size. Although small and large firms exist side by side, they often tend to perform somewhat different services. Our studies of the structure of the trucking industry indicate that a significant relationship exists between the size of the operation and the length of haul—a firm normally must reach a certain size before it can specialize in long haul operations.

These considerations lead to certain conclusions which are directly relevant to your study of the present Bill, and which are reflected in our detailed recommendations. These conclusions are:

- (1) The competitive nature of the industry has, to say the least, contributed largely to reduce the number of "captive shippers".
- (2) Because of the complexity of the industry and the paucity of the detailed knowledge about operations of its different sectors, considerable detailed research work will be required by the new Commission. It is relevant to note here that following establishment of the Air Transport Board, that Board spent approximately two years on a comprehensive industry survey as the first step in its activities. The trucking industry today is considerably larger and more complex than was the air transport industry in 1946 or 1947. This must necessarily lead the Government and the new Commission to the conclusion that it should study the trucking industry's problems most carefully before establishing its policy rules. In this work it must rely on the good-will and assistance of provincial government agencies, the industry and its Associations, national and provincial.
- (3) Apart from its regulatory functions, the Commission will also deal with broader aspects of transport policy co-ordination, and, presumably will play an important part in administering policies using transport as a means of national or regional policies. In this way the

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responsibilities of the Commission will be broader than those of the traditional regulatory boards. We have no basic objection whatever to this broadening of the Commission's responsibilities nor to the broad reserve powers it may be granted. However, in exercising these powers, and in framing any rules and regulations under the new Act, due consideration must be given to differences in the structure of the different transport industries. It follows that different methods of approach may often have to be adopted in dealing with different modes of transport. The regulations should reflect those different means of approach. The fundamental requirement of Commission-industry consultation must be stressed here.

- (4) The need for adopting a different means of approach dealing with different transport industries neither contradicts the principle of over-all transport policy co-ordination nor does it imply that in cases where different transport industries are affected, the effects of a certain policy on other transport media should not require extremely careful consideration. To argue the opposite implies a complete contradiction of the basic philosophy of the proposed legislation.

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### EXTRA-PROVINCIAL TRUCK CONTROL

Part III of Bill C-231 is naturally of great interest and concern to the extra-provincial trucking industry. It provides the means by which a Commission established by the government of Canada may assume extensive regulatory powers in the extra-provincial field. Until now, such regulation has been exclusively by provincial authorities.

Within the provincial regulatory environment, the typical trucking firm originates as a firm providing service within a municipality or a county or between urban centres in a province. As its business develops, the typical firm extends its operations until at some point in its development its services may be extended across provincial boundaries. The structure of the industry as a whole reflects the growth pattern of the typical firm. The trucking industry is composed of thousands of individual firms, most of which are concerned primarily with providing services between points within a province. However, many of these firms offer some services which involve the crossing of provincial boundaries.

In recent years, there has developed a number of trucking firms which specialize in interprovincial traffic, but this is not typical, so that even today a majority of the trucking firms which carry interprovincial traffic are primarily concerned with intra-provincial traffic.

One of the obvious difficulties in regulation of interprovincial motor transport arises from the fact that the industry cannot be divided neatly into firms which are intra-provincial carriers and those which are interprovincial carriers. Common sense demands that we recognize the provincial character of the industry. The law indicates that whenever a firm is involved in interprovincial traffic on a regular basis it falls under federal jurisdiction, no matter what the relative importance may be of its intra-provincial and extra-provincial services.

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### *Motor Vehicle Transport Act*

The regulation of both intra-provincial and extra-provincial trucking firms has been carried out by provincial boards partly under the authority of provincial statutes and partly under the authority of the Motor Vehicle Transport Act, Canada, 1954. In the past it was perhaps appropriate and practical that a provincial board should regulate extra-provincial traffic. However, as the industry has matured and extended its interprovincial services, the weaknesses of this approach to trucking regulation have become more and more apparent. Since the year 1955, the discussion and resolutions at the Annual Meeting of Canadian Trucking Associations have reflected the increasing problems in the extra-provincial regulatory field.



The Motor Vehicle Transport Act is reproduced in the Appendix. Basic weaknesses in this Act are seriously undermining regulation of extra-provincial trucking. A complete breakdown of the ability to enforce regulation under the Act would have a severe impact on the stability of the extra-provincial trucking industry. We are, therefore, concerned that, within the framework provided in Part III of Bill C-231, an effective, workable regulatory system should evolve.

It should be noted that the part of the trucking industry affected is an important part of Canada's transportation system. Of the 7,000 trucking firms represented by Canadian Trucking Associations Inc., approximately 1,000 hold extra-provincial operating permits. By the nature of their operations, and having regard for the decision, in 1954, of the Judicial Committee of the Privy Council in the Winner case, these firms fall without question under federal jurisdiction.

The latest figures available from the Dominion Bureau of Statistics—those for 1963—indicate that the extra-provincial trucking industry produced 25.3 per cent of the total net ton miles of Canada's trucking industry and 14.7 per cent of total revenues.

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The Committee is aware that jurisdiction over the trucking industry is divided between federal and provincial governments and that extra-provincial undertakings fall within federal jurisdiction whereas intra-provincial undertakings, operating solely within the boundaries of one province, fall within provincial jurisdiction (subject to clarification which is needed from the Supreme Court of Canada in respect to jurisdiction over certain types of intra-provincial operations).

The present system under which extra-provincial trucking operations are regulated by a number of individual provincial regulatory bodies, each under the Motor Vehicle Transport Act, having as their final reference their own provincial laws, is entirely unworkable. That such a regulatory system functions at all is a tribute to the common sense and intelligence of members of the provincial boards. For purposes of extra-provincial regulation, they are told by Parliament, in the Motor Vehicle Transport Act, to go away and regulate extra-provincial trucking in like manner—for those are the words: 'in like manner'—to local regulation. Ten conflicting systems of extra-provincial control were thus created. What is required is a system of uniform co-ordinated regulation administered by the Canadian Transport Commission and bringing into play any useful function which experienced provincial regulatory boards can still perform in order to assist the Commission.

When the Bill to enact the Motor Vehicle Transport Act was debated in the House of Commons in 1954, Hon. Lionel Chevrier, Transport Minister at the time, stated:

"If this legislation goes through we shall soon find out how it operates. The understanding at the conference was that if this did not operate satisfactorily there was no difficulty about amending the Act or perhaps finding a better solution than this. This was certainly the best solution that could be found at the time."

*Hansard*, June 14, 1954, p. 5965

It was soon apparent to the trucking industry that a statute which told provincial boards to wear a federal hat and go away and control routes and rates

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'in like manner' to existing local laws was an unworkable system of regulation. The first statement of our position that new federal legislation was required was made to an Interprovincial Conference of provincial motor transport Regulators and administrators held at Victoria, B.C., on September 17, 18 and 19, 1959. (This Conference preceded formation of the Canadian Conference of Motor Transport Authorities, embracing administrators and regulators responsible for truck control.)

After a review of the provisions of the Motor Vehicle Transport Act, Canadian Trucking Associations stated in its submission to the 1959 Inter-provincial Conference:

"There is no provision for joint hearings of provincial boards concerned in extra-provincial applications. From a regulatory standpoint, Parliament recognized not a Canadian trucking industry but ten individual trucking industries—it cut the industry into ten parts."

"The Act as it stands leaves the way clear for the regulatory mechanism—legally, federal—to become a several-headed monster giving off diametrically-opposed decisions in respect to the same extra-provincial applications. It legalizes one provincial board—acting as a federal regulatory agency—approving an extra-provincial application and another board, concerned with the same application, turning it down. That is the clear meaning of the unequivocal federal regulatory powers conferred individually upon each provincial regulatory board subject to the Act."

The transport board of any one province concerned with an application can refuse, and has in the past refused, applications approved by other provincial boards. This refusal has occurred despite the fact that the board's own legislation, limited as it is by the provisions of a provincial enactment, confines it to purely provincial considerations. This power of veto extends not only to applications for licences but also to applications for approval of transfer of licences and transfers of the shares of licencees. Provincial policies rather than national policies are therefore determining the development of federal undertakings.

At the present time most provincial transport boards do not exercise control with respect to extra-provincial rates of trucking firms. However, the amount of

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rate control has been increasing, not decreasing, and any problems of conflict between the jurisdiction of origin and the jurisdiction of destination must, therefore, increase if the seeds of conflict are to be found in the Motor Vehicle Transport Act. The Act says that where in any province tariffs and tolls of local (intra-provincial) carriers are regulated, extra-provincial tariffs and tolls may be regulated by the provincial board "in the like manner and subject to the like local transport."

Each provincial board has the power to control the same extra-provincial rate and the Motor Vehicle Transport Act is silent as to the definition of the

powers of each board over the rate. If an extra-provincial regulatory board is to have the power to control an extra-provincial rate, the power must be clearly defined, otherwise the board will not be able to carry out its extra-provincial regulatory function. It is not practical for two—or even more—provincial regulatory boards, acting separately as federal controlling agencies, to exercise the power of rate control conferred in the Motor Vehicle Transport Act. There is no definition of such power as between one board and another. The Motor Vehicle Transport Act empowers one board to approve the rate and another board to disallow it.

As an example, if the Province of Ontario were to give authority to the Ontario Highway Transport Board to regulate fully the rates for intra-provincial traffic in Ontario, and such rate regulation was extended to extra-provincial traffic, a great many problems could arise in the establishment of rates because of the high volume of traffic moving between Ontario and Quebec. The Quebec Transportation Board has long exercised a comprehensive system of regulation for all trucking rates to or from Quebec points. How the Quebec system of extra-provincial rate regulation could be meshed with an Ontario system of extra-provincial rate regulation defies explanation. No common regulatory approach on any legal basis is possible.

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Apart from the capacity for differing decisions—each decision carrying the full authority of the Motor Vehicle Transport Act—a further complication arises in the fact that any regulation of extra-provincial rates, being subject to the conditions and procedures of intra-provincial rate control, runs aground on three different systems of control presently in force in five provinces. Rates are filed in Ontario; filed and subject to control in Quebec and British Columbia; and fixed by the boards in Saskatchewan and Manitoba.

The obvious remedy is to include in federal legislation, as has been done in Part III, provisions applying specifically to motor carriers which are inter-provincial or international undertakings. At this point, however, a word of caution is necessary. An international or interprovincial transport undertaking may be one which carries on its business primarily within the boundaries of one province. This principle was established in the *Winner* case (1954 A.C. 541). It has been applied in two recent cases, *Tank Truck Transport Limited* (1960) O.W.M. 433 and *Liquid Cargo Lines Limited* (1965) 1 O.R. 84, where it was held that a provincial labour board had no jurisdiction over a trucking company because the company was an international or interprovincial undertaking, notwithstanding the fact that a very small portion of the services performed extended beyond the bounds of the province concerned.

#### *Provincial Control of Intra-provincial Parts of Federal Undertakings*

It is our conclusion that any legislation passed by the federal Government with respect to international and interprovincial motor vehicle transport undertakings applies to the whole of such undertakings, including the intra-provincial portion, unless restricted to the portion of the undertaking extending beyond the boundaries of a province. It is the view of Canadian Trucking Associations that



this, in fact, should be done: that the National Transportation Act should assert control over the cross-border lines of all international and interprovincial

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undertakings but intra-provincial lines of such undertakings should be regulated by provincial boards. For the intra-provincial lines which are part of cross-border undertakings, we suggest that the reference of federal powers used in the Motor Vehicle Transport Act continue to be applied.

We recommend that this be done by amending Bill C-231, limiting its application in Section 4 by adding the following words to Section 4 (e) "except transport by such motor vehicle undertaking which is performed exclusively within the limits of a province."

In practical terms, this means that a motor transport firm operating between Toronto and Montreal and servicing Kingston would have its Kingston-Toronto traffic under the control of a provincial board, and its Montreal-Toronto and Montreal-Kingston traffic under the control of the Canadian Transport Commission.

#### *Provincial Boards As Examiners For Canadian Transport Commission*

It is apparent that although the existing system of extra-provincial regulation is inherently unworkable, and in no sense can be construed as an acknowledgement of federal responsibility in the field of extra-provincial truck control, the provincial regulatory boards have, nevertheless, years of experience in the field of truck control which would be of great value to the Canadian Transport Commission in fulfilling its responsibilities under Part III.

It is recognized by Canadian Trucking Associations that the Canadian Transport Commission must be in control of the regulatory processes for all modes of transport under federal jurisdiction if the objectives of Bill C-231 are to be carried out. However, Canadian Trucking Associations recommends that where provincial regulatory boards are willing to hear applications of extra-provincial carriers and make reports, with recommendations, to the Canadian Transport Commission as to the disposition of the application, this useful role should be performed jointly by the provincial boards concerned.

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We have referred to the fact that approximately 1,000 firms hold extra-provincial operating permits. Hundreds upon hundreds of hearings are taking place throughout the country each year in respect to reviews, modifications, expansion and institution of new operating permits. At least two of the provincial boards must now sit with at least two panels—often with two panels in a province holding hearings concurrently—in order to cope with the extraordinary demands upon them. A very formidable task awaits the Canadian Transport Commission under Part III. Apart from the experience which would be retained by assigning to the provincial boards a role in which they would assist the federal commission, such a policy would also go far to overcome the problem created by the tremendous work load which will devolve upon the Commission in respect to extra-provincial applications.

Finally, the split jurisdiction in the British North America Act, as it applies to the trucking industry, makes it essential that there be complete liaison and co-operation between the Canadian Transport Commission and the provincial boards regulating trucking. There can be no mistake about it: Part III stands or falls on the degree to which the Canadian Transport Commission can establish and maintain such co-operation. A provincial regulatory board, by its decision in the intra-provincial regulatory field—the field, in which, constitutionally, the provincial boards are supreme—could consistently nullify decisions made by the Canadian Transport Commission. All a provincial board has to do is to make a regulatory decision in the intra-provincial field diametrically opposed to a decision of the Canadian Transport Commission and to considerations which the federal Commission had in mind in reaching its decision.

Provincial boards carrying out functions within the framework of Part III, with the overall authority of the Canadian Transport Commission operative at all times, would establish a close relationship between the provincial boards and the Commission and would be the best guarantee of an understanding, co-opera-

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tive relationship in the dual federal and provincial regulatory responsibilities assigned by the British North America Act.

What we are suggesting is a system similar to the “examiner” system used by Interstate Commerce Commission in the United States. Under this system applications to the Interstate Commerce Commission are initially dealt with by local examiners who hear the relevant evidence and give a decision which is subject to review by the Commission itself. We believe it should be possible to appoint the members of provincial boards as examiners so that initially matters which are to be considered by the Commission will be considered by the members of provincial transport boards. In this way there will be a continuity between the regulatory activities of the Commission and of the provincial boards which would not be possible if the considerable experience of the provincial boards is ignored.

We propose the following amendment in Part III:

“The Commission shall appoint an examiner or examiners in each province to conduct such enquiries as the Commission deems necessary with respect to any matter which may be determined, prescribed, ordered or considered by the Commission under this Part. If the Motor Vehicle Transport Act has come into force in a province by proclamation as provided in Section 7 thereof, and so long as the said Act remains in force in such province, the Provincial Transport Board of such province as defined in the said Act may delegate one or more of its members who shall be appointed as the examiner or examiners by the Commission in that province, provided that for the purposes of this Act the Ontario Highway Transport Board shall be deemed to be the Provincial Transport Board in the Province of Ontario.”

The reference to the Ontario Highway Transport Board is necessary. Under the Ontario legislation governing regulation of trucking, the Board conducts all hearings of applications for operating permits but the provincial Minister of

Transport, to whom the Board makes its recommendations, actually issues the permit. The Minister, in effect, is the regulatory agency. This is why, in the proposed amendment, the reference to the Ontario Highway Transport Board is necessary.

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#### *Recognition Of "Grandfather Rights"*

Where the power to control entry into an industry has been given to a regulatory authority, it has been customary to recognize the right to continue a service provided prior to the commencement of regulation. We assume that it is the intention of the Government that, in respect to the 1,000 extra-provincial carriers now in operation, Grandfather Rights will be recognized by the Commission when Part III of Bill C-231 is made applicable to motor vehicle undertakings. There is, however, no section in the Bill which specifically provides for recognition of Grandfather Rights. In this respect, the trucking industry is treated differently from rail and air transport.

There is a continuity between the Commission and the Board of Transport Commissioners and the Air Transport Board because those Boards are absorbed as part of the Commission. In addition, Section 90 of the Bill provides for the continuation of orders of these predecessor Boards so that operating rights granted by them will be continued without any further action by the Commission. Unfortunately there is no such continuity of authority available to the trucking industry under provisions of the Bill. We submit that trucking firms which may be subject to provisions of the National Transportation Act are entitled to some assurance that legitimate operating authorities, and only legitimate operating authorities, will be recognized by the Commission.

We recommend that the following sub-section be added to Section 31 of the Act.

#### SUB-SECTION 7

(7) Where a person has operated a motor vehicle undertaking to which this Part applies prior to the time this Part is made applicable to such motor vehicle undertaking, and such person holds a licence issued under the authority of the Motor Vehicle Transport Act in each province for which such a licence is required and in which he operates such undertaking, the Commission shall issue to such person a licence to operate a motor vehicle undertaking to which the Part applies, upon like terms and conditions as are prescribed in the licence or licences held by such person under the authority of the Motor Vehicle Transport Act.

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#### *Violations Of Licenses And Tariffs*

The present Section 32 provides that no person shall operate an inter-provincial motor vehicle undertaking unless he holds a licence issued by the Commission. Violation of this rule is declared to be an offense. This Section does not seem to apply to two situations:

- (1) where a motor vehicle undertaking operates in violation of an existing licence;



- (2) when a motor vehicle undertaking gives a rebate or transports goods at rates other than tariffs filed with the Commission.

In this connection, it is noted that there is no rule-making power given to the Commission against shippers or consignees who accept rebates or who may knowingly or wilfully obtain transport for less than the applicable rate, fare or charge, or who fraudulently or otherwise seek to evade or defeat a regulation made by the Commission under Part III.

It is the submission of Canadian Trucking Associations that such provisions are required and necessary. Accordingly it is suggested that Sections 32 and 34 be amended as follows:

*Section 32:*

Add a new sub-section (ii) to read as follows:

- (ii) No person shall operate a motor vehicle undertaking (or trailer or container undertaking) or a freight forwarder undertaking to which this part applies contrary to the conditions attached to the licence issued under Section 31.

The present sub-section (ii) becomes sub-section (iii) and should read as follows:

- (iii) Every person who violates sub-section (i) or sub-section (ii) is guilty of an offense and is liable upon summary conviction to a fine...

*Section 34:*

Present section to become sub-section (i). Add new sub-sections (ii) and (iii) to read as follows:

- (ii) No person, whether a motor vehicle undertaking, (a trailer or container transport undertaking), freight forwarder, shipper, consignor, or broker, or any officer, employee, agent or represen-

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tative thereof, shall knowingly offer, grant or give, or solicit, accept or receive any rebate, concession or discrimination in violation of any provision of this part, or who, by means of any false statement or representation or by the use of any false or fictitious bill, bill of lading, receipt, voucher, roll, account, claim, certificate, affidavit, deposition, lease or bill of sale, or by any other means or device shall knowingly or wilfully assist, suffer or permit any person or persons to obtain transportation of passengers or property to which this part applies for less than the applicable rate, fare or charge or who shall knowingly and wilfully by any means or otherwise fraudulently seek to evade or defeat regulation provided under this part.

- (iii) Every person who violates sub-section (i) and sub-section (ii) is guilty of an offense and is liable upon summary conviction to a fine not exceeding \$5,000 or to imprisonment for a term not exceeding one year, or to both fine and imprisonment.

*Agreement Between Inter-provincial Motor Vehicle Transport Operators*

Section 33 gives authority to the Commission to make orders with respect to all matters relating to traffic, tolls and tariffs of a motor vehicle undertaking to which Part III applies. It is conceivable that this authority can be considered to relieve trucking firms from provisions of the Combines Act. Whether this is so is not clear from the language in Section 33.

There are several tariff bureaux in provinces where trucking rates are filed with and regulated by provincial transport boards. Through these tariff bureaux, trucking firms file common rates, subject to the right of any firm to take independent action. These tariff bureaux facilitate common rate filing and are in the interest of shippers. Without them, shippers would be submerged in a welter of tens of thousands of rates on file. Common rates currently filed with provincial transport boards are deemed to be effective upon compliance with regulations for filing. This has been construed as relieving trucking firms from operation of the Combines Act. In all but one province where rates are filed, the rates are also subject to appeal by the shipper if he considers that the rates are unjust. Upon hearing of an appeal the board can vary or rescind the rate.

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Section 53 of Bill C-231 contains a proposed Section 337 of the Railway Act which provides that:

"Railway companies shall exchange such information with respect to costs as may be required under this Act and may agree upon and charge common rates under and in accordance with regulations or orders made by the Commission".

It is recommended that there be added either as sub-section (2) (c) of Section 33 or as a new-section to Section 35 the provision that follows:

An agreement between any two or more transportation undertakings relating to rates, fares or charges, or rules or regulations pertaining thereto, shall be subject to approval of the Commission on pain of nullity. Parties to such an agreement approved by the Commission, and their officers and employees shall be and they are hereby relieved of the operation of the Combines Investigation Act and provisions of the Criminal Code.

*Uniform Bill Of Lading*

Under Section 35 the Commission will have authority to make regulations in respect to a uniform bill of lading. In this connection presumably it will undertake to set out uniform conditions of carriage and tariff provisions.

It would be useful if these uniform tariff provisions contained a rule regarding the payment and collection of rates and charges. It is recommended that a new Section 35 (b) be considered as follows:

No motor vehicle undertaking to which this part applies shall deliver or relinquish possession at destination of any freight transported by it until all tariff rates and charges thereon have been paid, except under such rules and regulations as the Commission may from time to time

prescribe to govern the payment of all such rates and charges, including rules and regulations for weekly or monthly settlement and to prevent unjust discrimination or undue preference or prejudice.

### MARITIME FREIGHT RATES ACT

On the subject of freight rate reduction subsidies the MacPherson Commission was explicit in Volume I:

"Assistance to transportation which is designed to aid, on national policy grounds, particular shippers and particular regions should be recognized for what it is and not be disguised as a subsidy to the transportation industry. Moreover, whenever assistance of this kind is distributed through the transportation medium it should be available on a non-discriminatory basis to all carriers."

Royal Commission on Transportation  
*Report, Volume I, p. 29*

The principles embodied in these policy recommendations of the MacPherson Commission were the only principles which the Commission could adopt if, in the competitive environment, the Commission was to be fair to all modes of transport.

The Maritime Freight Rates Act, 1927, directed that the tariffs of tolls of the "Eastern lines" of the Canadian National Railways be reduced by 20% below the tolls or rates existing on July 1, 1927. The reduction applied within the Maritime Provinces and on lines of railway extending from the Maritimes to the Province of Quebec from the southern provincial boundary near Matapedia and near Courchesne to Diamond Junction and Levis. The Act implemented the recommendations of the report of September 23, 1926, of the Royal Commission on Maritime Claims, under the Chairmanship of Sir Andrew Rae Duncan. Effective July 1, 1957, the reduction on interprovincial rail freight movements westbound from the Maritime region as far as Diamond Junction and Levis became 30 percent instead of 20 percent.

In its present form. The Maritime Freight Rates Act discriminates against the trucking industry in the Atlantic Provinces and has caused that part of Canada's trucking industry to be underdeveloped in relation to the industry in other parts of Canada. The effects of the Act overlap into Quebec and have had an adverse affect on trucking firms in that Province.

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The four sections of Canada's trucking industry adversely affected by the Maritime Freight Rates Act are:

1. The Maritime Trucking industry;
2. Interprovincial truck operators who haul freight from the Maritimes Westbound to other parts of Canada;
3. Interprovincial truck operators who haul freight Westbound to other parts of Canada from the area of Quebec extending from the Southern provincial boundary (near Matapedia and Courchesne) to Diamond Junction and Levis;



4. The section of Quebec's trucking industry which operates in competition with intra-Quebec railway freight service on the "eastern lines"—extending from the Southern provincial boundary to Diamond Junction and Levis.

As the result of its study of the Maritime Freight Rates Act the MacPherson Commission reported:

"In fact, evidence was presented to us which would indicate that the internal payments made under the Act, which are paid on rail movements only, tend to inhibit the full development of alternate modes of carriage in the Atlantic Region. With this contention we are in agreement."

Royal Commission on Transportation  
*Report*, Volume II, p. 212

The serious consequences of the failure to modernize the Maritime Freight Rates Act were stated by the MacPherson Commission:

"The results of continuing to confine participation under the Act to rail carriers, bears serious consequences both for the allocation of resources in transportation in the Atlantic Provinces and for shippers there."

"The principles stated in Volume I and elaborated throughout Volume II are brought to the test in this instance. It is our conviction that favouring one mode over others will limit the choice open to shippers and keep at least some rates higher than they would be under effective competition. The effect of the present partiality of treatment is to confine some business to the rails at rates higher than would prevail under conditions of equal treatment."

Royal Commission on Transportation  
*Report*, Volume II, p. 214-215

It is well understood in the trucking industry that in legislation conceived in the very earliest days of our industry's existence there was no intention of

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discriminative or unfair treatment. The trucking industry was simply not a factor in 1927. Furthermore, the Act certainly recognizes the necessity for avoidance of discrimination against carriers. One of the main findings of the Duncan Commission, on which the Act is based, was that the Intercolonial Railway was considerably longer than necessary—international, imperial and strategic considerations predominating over commercial considerations at the time the line was built. Yet the subsidized reduction of freight rates applied not only to the Canadian National Railways, of which the Intercolonial was a part, but to competing railways which, subsidy or not, would have been forced to match the rate reductions of the CNR.

The MacPherson Commission recommendations were (1) that the Maritime Freight Rates subsidy should be eliminated on intra-Maritime freight shipments; (2) that the subsidy should be available to assist the movement of freight

shipments by all modes of transport on the Westbound interprovincial haul as far as Diamond Junction and Levis; (3) that the Maritime Freight Rates Act should continue unchanged in Newfoundland for a period of ten years.

In regard to the recommendation about Newfoundland, it simply meant that freight shipments transported by the newer and struggling trucking industry in that Province would be excluded from the Maritime Freight Rates Act for a period of ten years. This recommendation completely contradicts the Commission's findings in both Volumes I and II—in particular the statement of principle quoted in the opening paragraph of this chapter—that assistance to particular shippers and particular regions should be available on a non-discriminatory basis to all carriers. The Commission's recommendation regarding Newfoundland defies all explanation in logic, consistency and equitable treatment of carriers.

However, in its wider outlook regarding equitable treatment of modes of transport in the Atlantic Provinces, the Commission's recommendations, if

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implemented, would certainly have removed the discrimination which impedes the development of Maritime and Quebec trucking firms.

The Commission not only made a fair recommendation in respect to these trucking firms but it laid low the only serious continuation that could be advanced against giving shippers by truck the same treatment under the Maritime Freight Rates Act as had been given shippers by rail since 1927.

The Commission stated:

"Recommendations have been made to us not only by the non-participating carriers, but, indeed, on behalf of the shipping public of the Atlantic Provinces, to have the Maritime Freight Rates Act subvention apply to all types of carriage. There are sound economic reasons to support the proposal and the chief objection seems to be that it would create insuperable administrative difficulties."

"There is no doubt that the extension of the Act to cover movements of goods by all modes of transport will increase the administrative burden. But we do not see that the increase is either insuperable or unduly expensive. It appears that much of the difficulty would be overcome if the provisions of the Act were to apply to any properly licensed public common carrier who submits his claims in a specified manner. Problems of certification of claims require only the usual vigilance and spot checking. Violations of the Act should result in the loss of the privilege of participation. If, as we recommend, the provisions of the Act apply only on traffic moving Westward out of the select territory the numbers of participants will be tolerable."

Royal Commission on Transportation  
*Report, Volume II, p. 214-215*

Despite the known difficulties of the Maritime trucking industry and despite the findings of the MacPherson Commission, we find ourselves faced, in Bill C-231, with a policy that runs directly counter to the recommendation of the Commission. It is a policy which, in our view, is harsh and unfair to the trucking firms concerned.

Bill C-231 holds the MFRA rates at the reduced levels, continuing the unilateral subsidization of railway shipments. This continued discrimination flies in the face of those high principles of national transportation policy enshrined in Section I of the Bill.

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We find, further, that the rate reductions of the Freight Rates Reduction Act are to continue in the Atlantic Provinces for two years after the coming into effect of the Bill.

Such treatment of the Maritime trucking industry can in no way be related to either the findings or recommendations of the MacPherson Commission. For the Commission said:

"Under competitive conditions, the use of a single chosen instrument of transportation, rail, or another, to achieve regional or national objectives may seriously distort the allocation of resources, may achieve the desired ends by unduly expensive means, or may prove to be of greater assistance to that chosen mode of transport than to the region or industry the policy is designed to assist. Such measures as the 'bridge subsidy', the Freight Rates Reduction Act and the Maritime Freight Rates Act must be evaluated in the light of these considerations."

Royal Commission on Transportation  
*Report*, Volume I, p. 33

We recommend that the Maritime Freight Rates Act be amended to provide the subsidy aid to shipments carried by all modes of transport.

We recommend that the reduced rates of the Freight Rates Reduction Act cease to apply in the Atlantic Provinces upon the coming into effect of Bill C-231.

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#### EAST-WEST 'BRIDGE' SUBSIDY

Of the East-West 'bridge' subsidy, the MacPherson Commission stated:

"Trucking between Eastern and Western Canada has advanced rapidly despite the subsidy. But this was due in large part to technological improvements in trucks, better highways and more effective management. These improvements have been substantial enough to enable the trucking industry to compete in spite of the advantages given the rail carrier by the subsidy. Yet there can be little question that the subsidy has inhibited this growth of truck competition."

Royal Commission on Transportation  
*Report*, Volume II, p. 228

The Commission made this recommendation:

"In brief, the 'bridge' subsidy has adversely affected competing carriers. Yet the evidence indicates that such competition would be more effective in reducing rates than the subsidy has been. The subsidy is not impartial in the assistance given to carriers or to users of transportation.



In fact, it is discriminatory and inequitable in its application to both. It may give unfair market advantage to some regions over others. It appears inappropriately applied to a region with production and prospects as great as the Sudbury-Armstrong-Lakehead region when considered in relation to other areas in Canada. It is a most difficult policy to administer in view of the discrimination and unfairness inherent in its application."

"In the light of these considerations we recommend that the 'bridge' subsidy be abolished."

Royal Commission on Transportation  
*Report, Volume II, p. 228*

When the MacPherson Commission condemned the East-West 'bridge' subsidy for having "inhibited this growth of truck competition" and for the "discrimination and unfairness inherent in its application," it obviously was directing its attention to the results of the rail rate impact stemming from the subsidy. When the MacPherson Commission recommended that the 'bridge' subsidy be abolished, it meant, in effect—and there can surely be no doubt about this interpretation—that the 'bridge' rate reductions should end.

What the Government proposes in Bill C-231 is to end the subsidy but to freeze the reduced 'bridge' rates for a year after the coming into force of Part V

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of the National Transportation Act. A year after the coming into force of Part V, the freight rates may be increased to yield the Canadian Pacific and Canadian National Railways \$3 million in additional revenues; two years after the coming into force of Part V, an additional rate increase is permitted to yield \$2 million in additional revenues; three years after the coming into force of Part V another rate increase is permitted to yield approximately \$2 million of additional revenues.

We are not aware of any explanation of Government policy regarding the necessity of maintaining this "discrimination and unfairness" which, unless the Commission is wrong, will inhibit the growth of truck competition during the period that any part of these rate reductions remain in effect. We consider that the proposed policy in regard to the 'bridge' subsidy is absolutely contrary to the National Transportation Policy expressed in Section 1 of the Bill. We recommend that the rate reductions as well as the subsidy be abolished so that, in fact, there may be "the ability of any mode of transport to compete freely with any other modes of transport."

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#### RAILWAYS EXPRESS TRAFFIC

Section 42 of Bill C-231 makes extensive amendments to Section 314 of the Railway Act to provide for branch line and passenger service abandonments and to compensate the railways for losses sustained in branch line and passenger operations. A railway company operating an uneconomical passenger service may claim for losses ninety days after its application for discontinuance has been filed with the Canadian Transport Commission and, on the recommendation of

the Commission, the Minister of Finance may reimburse the railways by paying amounts not exceeding 80 percent of the passenger loss.

In the proposed Section 314 I, sub-section (1) (c) states that "actual loss" means the loss attributable to the carriage of passengers, mail or express or any combination of passengers, mail and express, in passenger service equipment by a passenger-train service."

The difficulty arises here that the definition of express is deleted from the Railway Act and the railways no longer have to obtain approval from the Commission as to what constitutes express. The results could be that railways could, indiscriminately, attach to passenger-train services, freight cars and describe them as express.

In view of the fact that express tariffs are filed in the same manner as freight tariffs, and that the principle of compensatory rates applies to express tariffs, it is conceivable that express service combined with passenger service would open the door to subsidies for the movement of freight which Parliament does not intend to subsidize.

It is well-known to Members of the Committee that so-called 'head-end' equipment of railway passenger trains is made up of a variety of freight equipment. It may be a box car—usually, in such cases, especially equipped for

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high speed passenger service. It may be an express car, designed for combined mail and express movement, or express only. It may be a refrigerator car—usually, in such cases, painted in passenger train colours of the particular railway but just as much a freight-carrying car as a refrigerator truck moving along the highway. It may be a postal sorting car for the purpose not only of carrying the mail but of facilitating its sorting in transit. It may be a flat car loaded with express containers interchangeable between railway and motor truck chassis.

Passenger trains of the two major railways have been observed with prodigious amounts of so-called 'head-end' equipment being hauled within the train on regular passenger schedules.

The situation can still exist but disappear from view by the simple expedient of operating all of this 'head-end' equipment in separate trains, removed from passenger equipment, with a caboose on the tail end. In actuality, we now have a freight train. Whether express and mail moves in passenger trains or whether it is the operational decision of the railways to move such 'head-end' equipment alone as a separate train, it appears from Bill C-231 that all such freight services—mail and express—could take a part of the passenger subsidy.

Surely it is not the decision of the Government to subsidize the movement of this traffic in direct competition with freight services of the trucking industry. To do so would be inconsistent with the national transportation policy stated in Section I.

We strongly oppose subsidization—under a passenger subsidy or any other subsidy—of mail and express services of the railways. Trucks in Canada are now carrying a heavy volume of mail. Express is directly competitive with truck freight service in respect of practically all commodities. We recommend that

losses for passenger services which can be re-imbursed by the Minister of Finance do not include mail or express movements. The reference to "mail and

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express" should be eliminated from the proposed Section 314 I, sub-section (1) (c) so that subsidies for passenger service losses will be restricted to such service.

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### PIGGYBACK

Railway trailer-on-flat-car movements—commonly known as piggyback—is made up almost entirely of three elements: (1) trailers that are a part of railway freight service and which are used to provide rail freight piggyback service for shippers; (2) trailers of subsidiary truck lines owned by the railways; (3) trailers of independent trucking companies. So far as we know, the railways have continued their policy of carrying trailers in categories (2) and (3) under the same rates and conditions. The trailers of railways subsidiary truck lines—as an example, Midland Superior Express Limited in the case of the Canadian National and Smith Transport Limited in the case of Canadian Pacific—are treated by the railways as the trailers of just another trucking company; and the company must pay the railway the full rate for the movement.

The MacPherson Commission stated:

"However, railway ownership of truck lines involves two policy recommendations concerning this diversification. The first concerns the real economic advantages of combining road and rail facilities. To the extent that these exist, the railways must be required to offer to all truckers rail facilities at prices and under conditions the same as are offered to rail-owned trucks."

Royal Commission on Transportation  
*Report, Volume II, p. 81*

We are pleased to see, in Bill C-231, that Section 45, by adding subsection (9) to Section 319 of the Railway Act, gives effect to this recommendation. That it gives only partial effect to the recommendation involves a consideration of the Transport Act as well as the Railway Act.

The necessary safeguards, if included only in the Railway Act, as Bill C-231 contemplates, leave the door open to evasion of the policy recommended by the Royal Commission and the policy accepted by the Government. The door to evasion is wide open in the agreed charge provisions of the Transport Act.

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The Transport Act has been used before—through the medium of an agreed charge—by a railway as a way out of restrictions explicitly imposed in the Railway Act. If the railways are told explicitly in new provisions of the Railway Act that they must haul the trailers of their trucking subsidiaries on the same terms and conditions, and at the same charges, as applied to the trailers of independent trucking companies, they can evade this immediately by using the Transport Act to make agreed charges with their own trucking subsidiaries.



The claim could be made that since the Railway Act explicitly recognized railway trucking subsidiaries as *shippers* when consigning trailers on flat cars, the railways would be perfectly entitled to quote piggyback rates in an agreed charge under the Transport Act, rather than a piggyback rate under the Railway Act. It is true that the Transport Act, under which agreed charges are made, provides that the shipper of goods which are the same as, or similar to, goods to which an agreed charge relates, and who offers his goods for carriage under substantially similar circumstances and conditions, may obtain voluntarily from the railways (or, if not voluntarily, by order of the Board of Transport Commissioners) a fixed charge based on existing agreed charge rates. Theoretically, then, if the railway attempted to discriminate against independent trucking companies shipping trailers by using agreed charges to make special rate deals with railway trucking subsidiaries, the independent trucking companies could apply to the Canadian Transport Commission for a fixed charge under the Transport Act.

However, the ability to use this course of action to eradicate discrimination is qualified by the shipper's ability to comply with the conditions imposed in the Transport Act—"goods... that are the same as, or similar to, and are offered for carriage under substantially similar circumstances and conditions as, the goods to which the agreed charge relates...".

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And, for the railway, there is a way around this. The railway could make it impossible for the trucker to meet these conditions by inserting in the agreed charge a requirement that the shipper construct his own private siding to a point designated by the railways for loading and unloading the trailers. Other provisions could be imposed upon shippers—the requirement that they pay for the building of the flat cars or the special fittings and equipment required for piggyback.

These examples are taken from an agreed charge which Canadian Pacific Railway made with Canadian Pacific Transport Company in Western Canada. In this instance, the Canadian Pacific first implemented a piggyback tariff under the Railway Act in which Canadian Pacific Transport Company was named as the exclusive shipper of trailers. It offered extremely low rates in this tariff for the movement of CPT trailers.

The tariff was the subject of a complaint to the Board of Transport Commissioners by Canadian Trucking Associations, and others, generally on the grounds that various provisions in the Railway Act prohibited the railway from naming one shipper to whom a rate would exclusively apply. Before the matter came to a public hearing under the Railway Act, the Canadian Pacific withdrew the tariff. The Railway then substituted an agreed charge under the Transport Act. In that agreed charge were the provisions which we have cited—including the requirement that the shipper could be asked to build his own private siding, presumably from his truck terminal to the nearest piggyback yard. These are ways in which there can be evaded any safeguards which Parliament implants exclusively in the Railway Act in respect to maintaining the same piggyback rates for independent trucking firms and railway trucking firms shipping trailers by rail.

We respectfully suggest that, in accord with the safeguards that the Government would create in Bill C-231 under the Railway Act, to prevent unusual and discriminative treatment in the rates charged to trucking companies

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consigning trailers by piggyback, the Transport Act as well as the Railway Act should be the subject of appropriate legislative amendments.

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#### REGULATION OF "PIGGYBACK", OTHER CONTAINER OPERATIONS AND FORWARDERS

A significant volume of interprovincial freight traffic is moved by piggyback or trailer-on-flat-car operations. These are operations whereby freight is loaded into a trailer which is then moved to a rail piggyback terminal by a motor vehicle power unit. At the rail terminal the trailer is detached from the motor vehicle power unit and is loaded on a rail flat car. The trailer then moves via the railway to the railway terminal at destination where it is unloaded and pulled away by another motor vehicle power unit to ultimate destination.

Piggyback is a specialized form of container operation, although to date it is probably the best known method of handling freight in large containers. There are a number of companies in the United States and Canada making extensive use of large containers which can be moved from a truck or trailer chassis to a railway flat car.

Container operations, including piggyback, are most economical on longer hauls. Consequently piggyback operations now account for a significant portion of interprovincial traffic. Statistics are not available to show the extent of interprovincial piggyback movement as part of the total piggyback movement in any year to date. However, since piggyback is provided on the longer hauls, the gross ton miles accounted for by piggyback may be taken as largely representative of interprovincial movements. According to The Railway Association of Canada, CNR and CPR piggyback operations accounted for 279,000,000 gross ton miles in 1957 and 2,451,000,000 gross ton miles in 1963. We anticipate that in the future there will be continuous and increasing use of this and other forms of container operations in interprovincial freight movement.

We understand that it is the present policy of railway management in Canada to limit piggyback facilities mainly to the railways themselves, their subsidiaries, and to trucking companies which are licensed for highway operation

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between the railway terminals involved. However, it would be unrealistic to assume that the present policy may not be changed. Therefore, we anticipate that a significant portion of interprovincial traffic might in future be solicited, picked up and delivered by firms which do not operate motor vehicles across provincial boundaries, which would not be "a motor vehicle undertaking connecting one province with another..." and which, despite the interprovincial movement, would not be within the jurisdiction of the Commission.

We should add that our concern is not merely academic. There are at present a number of trucking firms whose trans-border operations are primarily by piggyback and who would be in a position to carry on extensive unlicensed operations if Part III of Bill C-231 comes into force as it is presently worded. If this were the case the Commission would be in the position of having its orders and regulations as to tariffs, bills of lading, insurance and licensing ignored by a potentially important segment of transport undertakings.

To overcome these problems, and to ensure that no confusion can arise by the present omission to mention trailers in the definition section of the Act, we suggest the following amendments:

PROPOSED SECTION 3, SUB-SECTION (d)

- (d) Motor vehicle undertaking means:
- (i) a work or undertaking for the transport of passengers or goods by motor vehicle; and
  - (ii) a work or undertaking, other than a railway to which the Railway Act applies, for the transport of goods by a trailer or a container designed for operation in conjunction with a motor vehicle.
- (e) "Motor vehicle" shall include a trailer operated in conjunction with a motor vehicle.

We submit that the interprovincial operations of freight forwarders should also come under the jurisdiction of the Commission. Our reason for this recommendation is the same as the reason for our recommendation with respect

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to piggyback and container operations: forwarders should be subjected to the same obligations and the same responsibilities to the Commission and the public as are motor carriers. We recommend that a special part dealing specifically with forwarders should be added to Bill C-231. Or alternatively, Part III of the Act should be extended to cover freight forwarders. In any case, we recommend that a new Section 3 (f) should be added to define freight forwarders as follows:

Freight forwarder undertaking means a work or undertaking other than a railway to which the Railway Act applies, transport by air to which the Aeronautics Act applies, transport by water to which the Transport Act applies, motor vehicle undertaking to which the Motor Vehicle Transport Act applies, which holds itself out to the general public to transport or provide transportation of property or any class or classes of property for compensation and which in the ordinary and usual course of its undertaking

- (1) assembles or consolidates or provides for assembling and consolidating shipments of such property and performs or provides for the performance of break bulk and distributing operations with respect to such consolidated shipments, and
- (2) assumes responsibility for the transportation of such property from point of receipt to point of destination, and



- (3) utilizes for the whole or any part of the transportation of such shipments the services of a railway, transport by air, transport by water or a motor vehicle undertaking subject to Part 1, 2, 3, 4 or 5 of this Act.

#### *Control of Lease Operators and Brokers*

Many provincial authorities have found difficulty in preventing the circumvention of provincial regulation respecting trucking operations by lease operators and brokers.

A lease operator is one who holds no licence but who effectively carries on a trucking business by leasing his vehicle and his services to his customer or customers. A broker is an operator who owns and operates a motor vehicle which is registered in the name of another person holding a licence to carry goods by motor vehicle.

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The objection to a lease operator is obvious. He is in direct competition with licensed operators but is able to ignore the regulatory constraints to which they are subject. The objection to a broker operation is that where a licensed operator makes use of brokers he stands between the regulatory authority and the parties to whom it was intended that regulation would apply. A licensed operator making use of brokers can, without risking his own capital, encourage more operators to serve a particular route than would be economic having regard to the traffic available and thus create instability among all those firms which must have regard to true costs of operation.

The present wording of Section 3 (d) and Section 32 (1) of Bill C-231 leaves the impression that so long as a motor vehicle is used for the transport of goods its operation may be subject to regulation by the Commission. However, we are concerned that this broad jurisdiction may prove to be limited in such a way that proper control of lease operators or brokers is not effected.

We recommend that the Commission's power to control all interprovincial transport of goods by motor vehicle be ensured.

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#### RAILWAY ENTRY INTO THE TRUCKING FIELD

The only positive policies on rail entry recommended by the MacPherson Commission have been implanted in Bill C-231. The Commission stated:

"However, railway ownership of truck lines involves two policy recommendations concerning this diversification. The first concerns the real economic advantages of combining road and rail facilities. To the extent that these exist, railways must be required to offer to all truckers rail facilities at prices and under conditions the same as are offered to rail-owned trucks. When a trucker decides to use rail facilities for part or all of the distance, he is a shipper and should have the right to come before the Board of Transport Commissioners in that capacity, either singly or jointly with others. In order that the Board may determine the

realities of any intercarrier discrimination, railway companies, by virtue of being truck owners, must be required to make fully available to the Board the pertinent cost and revenue data including, particularly, costs of capital".

Royal Commission on Transportation  
*Report, Volume II, p. 81*

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In accord with this finding, Section 45 of Bill C-231 would create in Section 319 of the Railway Act a proposed sub-section (9) that would require the railways to afford independent truckers the same facilities at the same rates as they afford to subsidiary trucking companies of the railways.

The MacPherson Commission stated:

"The second recommendation concerns the possibility of hidden subsidies from rail assets or income to trucking operations, or vice versa".

"The Board must given authority to require the railways to keep strictly separate accounting of their operations intermodally. The costing section of the Board of Transport Commissioners must be able, at all times, to provide the Commissioners with pertinent cost separations for rail and road operations of the railway company. Undoubtedly this will require initial and recurring changes in the Uniform Classification of Accounts, to keep them applicable to costing operations rather than for strictly balance sheet requirements".

Royal Commission on Transportation  
*Report, Volume II, p. 81-82*

This recommendation of the Commission finds expression in Section 69 of Bill C-231 in which it is proposed that Section 387 of the Railway Act be amended to require that the uniform classification of accounts of railway companies be reviewed to ensure that separate accounts are kept for assets and earnings for rail and non-rail enterprises and of their operations by modes of transport.

We welcome and support the two provisions in Bill C-231 that deal with entry into the trucking field achieved by the railways to date. We regard it as a serious omission that in a Bill which calls for no restriction on the ability of any mode of transport to compete freely with any other mode of transport, there is no provision to halt growing railway ownership and control of competitors in the trucking field.

Meanwhile, the erosion of the independence and competitiveness of the trucking industry continues. The purchase of trucking firms by the railways, the extension of the operations of existing railway truck lines, surely, in transport legislation of such importance as Bill C-231 raises the question of future government policy.

Such entry has been persistent since the year 1946 and has fluctuated in cycles of activity by CPR in the period 1946-1948 and 1957-1958, and, in the case of the CNR, largely in the period 1959 onward.

Indeed, the most recent purchase by Canadian National occurred on the eve of hearings of this Committee, involving one of the larger trucking companies in British Columbia whose principal is the Immediate Past President of Canadian Trucking Associations.

All such entry into trucking has been fought by Canadian Trucking Associations. Despite erroneous information given by Canadian National Railways to the Sessional Committee on Railways Owned and Controlled by the Government in the early Spring of 1964, to the effect that Canadian Trucking Associations opposed only Canadian National entry because CN was publicly-owned, the fact is that every Canadian Pacific purchase was opposed by the organized trucking industry; every legal step that could be taken to preserve the independent competitive forces in the trucking field was taken and was pursued with vigour and tenacity.

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The opposition of Canadian Trucking Associations was formed amid controversy within the trucking field itself (some trucking firms would like the door left open to sell to a railway). Nevertheless, the policy of the Associations has been stable in its execution. If there is virtue in consistency it is noteworthy that the policy has weathered all the storms of rail entry development covering a period of more than twenty years and our policy remains intact today.

In view of the strong monopolistic tendencies present in other sections of the economy, which governments of practically all nations have attempted to control and check, it would appear rather strange if the same monopolistic tendencies did not exist in transport. In fact, they exist; this is the essence of the problem of railway entry into the highway transport field.

The MacPherson Royal Commission did come close to a recognition of the problem. The relevant passage of the Report (Volume I, page 25) states:

"The truckers, on the other hand, fearful of the very great financial resources of the railroads, have claimed it (railway entry into road transport) represents a potential return to a monopoly era in transportation—once the railways have achieved a dominant position in trucking, say the independent truckers, the competitive stimulus in transportation now provided by this form of carrier will disappear. While there is cause for concern, certainly, in this trend toward a sort of 'transportation supermarket', owned and operated by the railways, it *would appear* that the economics of the trucking industry...*would seem* to rule out the possibility of a re-emergence of a monopolistic transportation environment dominated by the railway companies. We *would also assume*...that the virile and articulate trucking industry, through its Associations, *should be able* to alert the public and the federal authorities in the event of cases of restraint of trade arising from this source."

Royal Commission on Transportation Report, Volume I, page 25; (underlinings supplied)

The number of conditional clauses, the uneasy assumptions, make this passage rather unique among Royal Commission pronouncements. Although the



trucking industry might feel flattered by certain of the references to it, serious doubts may be entertained as to how far its Associations may "be able to alert the public and the federal Government" and how effective action could be following the alerting of these authorities, unless there is some really effective regulatory framework in existence.

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Surely the national transportation policy being examined for Canada in Bill C-231 draws the Committee inexorably to an examination of the extent to which the railways have entered the competitive trucking field and the extent to which they have positioned themselves to establish control within this field. Surely Parliament must have some settled policy on rail entry if the words *"with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport"* are not to be reduced to mere verbiage.

We respectfully submit that the time has come when Parliament, viewing the amount of rail entry that has taken place and the comprehensive variety of services controlled by the railways on the highways, must penetrate beyond glib explanations about a "trucking arm" or "integration of services".

The railways, at the present juncture, can argue that to all intents and purposes they are operating their subsidiary truck lines in competition with the parent railway company (excepting truck lines absorbed in Canadian Pacific Merchandise Services). They can point to the fact that there is rate competition between rail and the subsidiary rail trucking firm. An instance can even be quoted where a railway subsidiary used the piggyback services not of the parent company but of the rival railway on grounds that the rival gave more convenient piggyback service. In fact, quite a dazzling picture of competition can be conjured up in order to dispel any allegation that there is a restrictive control of one mode of transport by another even though there is common ownership.

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But this type of analysis does not penetrate to the crux of the matter. The concern of Canadian Trucking Associations and, indeed, the concern of anyone interested in a truly competitive and viable transportation system is that within the outer walls of competition by modes under common ownership, there is a steadily increasing control by the railways taking shape within the trucking industry.

One of the statistics used to divert the penetrating analysis which is required for this problem is the number of companies involved in railway purchase to date—a handful of the 7,000 firms represented by Canadian Trucking Associations.

But it is not by the numbers of companies or even by the total 'for hire' trucking fleet attributable to railway ownership that we can know the extent to which the railways are asserting and broadening their control of highway freight operations. The question of the actual number of firms they have purchased and the total number of trucks represented—admittedly a small percentage of the total—are the superficialities of the rail entry situation that exists. For control

can be achieved by the railways within any given section of the trucking industry by one purchase among, say, six independent trucking companies operating on a route. The minute railway ownership becomes a factor on that route a situation exists where the dominant carrier is the railway on rubber-tired wheels—one of the railways that the MacPherson Commission pinpointed as being able to “create intolerable uncertainty by sporadic rate wars, so that an efficient trucking industry cannot persist.” How could the railways create this intolerable uncertainty? “Because of their relatively enormous size and resources, and the relative permanence of investment compared to firms engaged in other modes”—according to the MacPherson Commission. And what is true of the power of the railway in the rate field is equally true of the power of the railway as an investor in the field of its arch-competitor, the truck.

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Thus, the control which the railways are gaining within the trucking industry is a control built upon a careful selection of strategically located firms. The Committee may be sure that even more important than the calibre of personnel, the state of the equipment, and the adequacy of terminals, is the *operating authority* held by the trucking firm which the railway purchases.

The MacPherson Commission did not come to grips with this problem in its report; it walked around it.

Remarks in a Royal Commission report about the “virile and articulate trucking industry” have, as we have noted, a certain flattering connotation, but it is an almost facetious way to approach control by the railways of one of the competitive forces which the Commission itself considered to be of such importance to Canadian transportation.

The Standing Committee on Transport and Communications, having regard for the scope of the legislation before it, may put Bill C-231 in the category of long term legislation. It may consider that, with the passage of this particular Bill, it will be a long time before the transportation problem, once it gets into the hands of the Canadian Transport Commission, will be back on the doorstep of Parliament. If this is so—if it is true that Bill C-231 is now precipitating a study in depth of transportation that may not occur again in Parliament for a lengthy period—there is surely an imperative need not to pass by the question of rail entry into trucking. *In the years ahead, above and beyond the 93 Sections of the National Transportation Act, the Canadian railways can regulate from their headquarters in Montreal the development of surface transport by the amount and location of their purchases in the trucking field.*

With this power, and without regulation of rail entry into trucking—and there is no such regulation in Bill C-231—the railways can effectively bypass the national transportation policy established in Section 1.

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The long run consequences of purchases of strategic highway transport operations, purchases that will convey to the railways a minority ownership, *but decisive control*, of the trucking industry “because of their relatively enormous size and resources”, is not in the interests of consumers of Western Canada, the

Atlantic Provinces, or indeed, of Central Canada—not if the MacPherson Commission was right when it said:

“The transformation from a monopolistic to a competitive transportation environment in Canada has had pervasive effects both inside and outside the transport field. Increased capacity associated with the growth of alternative modes of transport and improved efficiency arising from the competitive stimulus resulted in lower rates and better services than might otherwise have prevailed, and the country as a whole has benefited greatly from the over-all improvement which has been wrought in the transportation system.”

Royal Commission on Transportation  
*Report*, Volume I, p. 11-12.

It is recommended therefore that the following new Section 35(c) be added to Part 3 of the Bill as follows:

- 35(c) (i) Any merger, consolidation, sale, exchange, transfer or lease of a motor vehicle undertaking or any agreement, contract or transaction which is to bring about a change in the control of such motor vehicle undertaking shall be null and void unless approved by the Commission prior to its intended effectiveness.
- (ii) Notwithstanding the foregoing or any other provision of this part, no person, partnership or corporation operating or controlling any transportation undertaking other than a motor vehicle undertaking shall acquire an interest in or control of or shall operate a motor vehicle undertaking except that a railway company or an airline or a steamship company may operate or control a motor vehicle undertaking in conjunction with its transportation services for the purpose of pick-up and delivery in urban centers.

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#### THE RIGHT OF COMPLAINT, APPEAL AND INVESTIGATION

While the trucking industry does not agree with all of the recommendations of the MacPherson Commission, that Commission was certainly in tune with the new and revolutionary trends that have taken place in the transportation field. The Commission recognized clearly that unless the entire transportation structure of Canada was to be distorted and forced into a false mold, the various modes of transport must compete one with another under conditions which would enable each to bring fully into play their inherent advantages of technology, service and cost.

The trucking industry has nothing whatever to fear from this philosophy and does not challenge it before this Committee. Ours is an industry born and bred in an atmosphere of competition—an industry that fought its way into existence in the face not only of internal competition—‘for hire’ trucker against ‘for hire’ trucker; ‘for hire’ trucker against private trucker—but against two of the largest railway systems in the Western hemisphere.



In respect to competitive freight traffic capable of movement by road or rail, the MacPherson Commission put one restriction on such competition. It was that freight rates must be compensatory, at least to the extent of direct out-of-pocket costs of the movement for the very short run period; or, for a longer time span, at variable costs as defined for the period, or at long run marginal costs.

An impression can easily be created that the MacPherson Commission saw rail and truck media as competing on roughly equal terms—that on the one hand, we had the giant railroad industry, on the other hand, the giant trucking industry, and that the test of survival lay in the ability of one of the industries to pit its economic strength against the other.

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That this is the thesis of the MacPherson report is true. But the MacPherson Commission was also keenly aware that a comparison of the economic strength of the railroad industry and the trucking industry could not be realistic unless one went behind the words 'trucking industry' to see what was there.

And, of course, what is there is not two giant trucking systems, one publicly-owned, the other privately-owned, but thousands of individual firms, small and large, comprising what is known as the trucking industry. The Royal Commission gave evidence of its deep concern that an economically weaker, but not less efficient, competitor, could be put out of business, and its investment wiped out, by charging rates below cost. This concern is evident in the provisions of Bill C-231.

The Commission stated:

"Enlightened management in their own interest would not knowingly carry goods at a rate which yielded revenues below the direct out-of-pocket costs, that is, those costs directly assignable to the traffic. To persist in the practice for any considerable length of time would ruin the company. Other things being equal, the regulatory provision for minimum rate control would be redundant."

"However, other things are not equal. Because of their relatively enormous size and resources, and the relative permanency of investment compared to firms engaged in other modes, the railways could create intolerable uncertainty in the trucking industry by sporadic rate wars, so that an efficient trucking industry could not persist."

"Rate regulation must continue to stipulate a minimum limit. Ideally this would be a feature of rate regulation for all modes, but administration difficulties as well as economic reality make it less essential for the trucking industry so long as freedom of entry of new firms is permitted. A trucking firm setting rates below the direct expenses of the movement will soon be replaced. Until that happens the effect will be a transfer of income from the firm to the shipper."

"With railways, extended over the nation as they are for the most part, representing large capital investment in few firms, and less involved with each other in price competition, regulation must continue to assure

that no rate should ever be set below the direct costs of the movement. Where railways continue to quote identical rates between points, the permissive minimum rate must be determined by the relevant costs of the higher cost route. For the minimum to be set by the shorter or cheaper route would force one railway to offer rates below the legally stipulated minimum. With this *caveat*, the practice of quoting common rates by all railways should not be discouraged. Within the regulated limits of minimum and maximum rates, common or joint rates are not in themselves in restraint of competition. Depending upon the time period taken into account the minimum rate could be set at the direct out-of-pocket costs of the movement for the very short run, or, for a longer time span, at variable costs as defined for the period, or at long-run marginal costs. Insofar as the allocation of resources between modes of transport over a long period is concerned, long-run marginal costs are unquestionably the proper minimum."

Royal Commission on Transportation,  
*Report*, Volume II, p. 66-67

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The proposed legislation makes provision for the *protection* and *preservation* of such competition. This is, in our understanding, the rationale of the provisions allowing all interested parties, competing transport industries included, to make representations to the Commission at the hearings concerned with the actions of the railways. These provisions are obviously logical, and in line with good regulatory practice.

It has been the practice of existing federal regulatory agencies to hear the representations of affected transport interests in the same industry—this indeed is an essential part of the adversary system of judicial or quasi-judicial practice. Accepting this principle, it would be highly illogical to restrict its application to firms within the same industry *when the major competitive impact relates to the action of firms in other competitive industries*.

An action by CNR or CPR may have little or no effect on the other railway but it may lead to virtual elimination of the competing trucking company's operation in the area affected by certain railway rate policies. Given unequal resources of a railway company and its truck competitors, the preservation of competition—which is in the public interest—requires that the affected companies, either themselves or through their Associations—should be allowed to complain to the Commission.

An argument has been put forward that the right of a competing mode of transport would inhibit the free development of competitive equilibrium base on inherent economic advantages. This argument is based on the confusion of "inherent economic advantages" and "competitive strength". If all modes of transport are allowed to develop their inherent economic advantages through greater efficiency, technological progress, better service quality etc., such development must be considered highly advantageous. If however, a particular transport organization uses its economic power of massive resources to eliminate

competition through uneconomic rate wars, such a development has nothing to do with the free interplay of competitive forces, or inherent advantages. It is an exercise in monopolistic strategy and not in competitive action.

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The basic premise of the MacPherson report was that the transport system must be considered as a whole. The operationally significant application of this principle is contained in the provisions of the proposed Act combining research and regulatory functions. These provisions charge the Commission with the duty of developing proper measures and policies relating to all modes of transport and to the inter-relationship of these modes. Inseparable in the achievement of these policy objectives is the right to complain against "competitive"—in fact, monopolistic—actions of the railways by other modes of transport.

We fully support the proposed appeal procedure providing for appeal to the Commission as a whole from decisions of a Committee specializing in regulation of one mode of transport. Because of its very composition, the Commission as a whole may, on occasion, be better equipped to relate the interests of a particular transport industry (e.g. the railways) to the broader public interest concerned with the transport system as a whole.

In our introductory remarks we stressed that although the same basic principles must be applied to all modes of transportation, their application must be modified to take the cognizance of the particular characteristics of any one of the transport industries. Thus, the very size of the railway companies as compared with even the largest trucking organizations raises different issues, the

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most important being the possibility of the exercise of the economic power of huge resources to achieve certain competitive results. No. trucking company through selective rate cuts can force a railway out of a particular market, but a railway can, by selective rate cuts, eliminate or virtually eliminate a whole section of the trucking industry. Because of the fact that joint costs, system costs and overhead costs form a much larger part of railway costs, the determination of the compensatory character of any particular railway rate is a matter of extreme difficulty as compared with the costing of a particular trucking operation. On the other hand, the very size of the railways, and the consequent existence of an elaborate and sophisticated costing system makes a different type of inquiry possible.

The principle of compensatory charging implies a heavy reliance on costing. This, in turn, would make it necessary for the Commission to conduct extensive studies not only of the actual costs but also of the costing methods. It appears most important to us that such studies of costing methods and principles should not only be conducted on an extensive scale, but also that they should be subject to scrutiny of the potentially interested parties.

What the Royal Commission said about the danger of sporadic railway rate wars against the trucking industry is meaningless unless the right of appeal to, and hearing by, the Canadian Transport Commission or an appropriate Committee of that Commission is given to the trucking industry as set out in Bill



C-231. Shippers who enjoy rates that are non-compensatory will never precipitate a complaint to the Commission for the simple reason that they hold the rate; they have no desire to impede the provision of a railway rate that moves traffic at a loss. The Royal Commission reference to an efficient trucking industry being unable to persist amid the intolerable uncertainty of sporadic railway rate wars becomes just so much verbiage if such situations, when it is genuinely believed they exist, cannot be brought to the attention of the Canadian Transport Commission with the expectation that they will be investigated.

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*Status Of Trucking Industry As "Party Interested" Under National Transportation Act*

Section 39 of the Bill introduces Section 45(a) in the Railway Act, providing that at any hearing of the Commission for the purposes of making any order or giving any direction, leave, sanction or approval in respect of any railway matter, representatives of provincial and municipal governments "or any association or other body representing the interests of shippers or consignees" may appear and be heard before the Commission subject to such rules of procedure as the Commission with the approval of the Governor in Council may prescribe.

The explanatory note in the Bill states: "This new provision would permit representatives of provincial and municipal governments and specific interests to appear and be heard by the transportation authority on matters in which they might not, in a legal sense, be 'interested' parties."

Section 33, sub-section (1) of the Railway Act states that "the Board has full jurisdiction to enquire into, hear and determine any application by or on behalf of any party interested".

Sub-section (5) states:

"The decision of the Board as to whether any company, municipality or person is or is not a party interested within the meaning of this Section is binding and conclusive upon all companies, municipalities and persons."

On August 21, 1957 an application was made by Canadian Trucking Associations to the Board of Transport Commissioners of Canada requesting the disallowance of certain competitive rates published by the Canadian National Railways and the Canadian Pacific Railway Company in Western Canada. At a hearing on February 20, 1958, the two railways made a motion for dismissal of the application on the ground that the applicant had no status to invoke the jurisdiction of the Board.

The Board dismissed the application of Canadian Trucking Associations in a judgement dated March 24, 1958, in which the Board stated:

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"In the Board's view, what Parliament did in using the expression 'party interested' in Section 33 of the Railway Act was to make a

qualification restricting entitlement to make an application and require the Board to 'inquire into, hear and determine' it to a party who is 'interested'; but such 'interest' that a party needs in order to qualify as a 'party interested' in the circumstances of this application must be a kind of interest that Parliament had in mind when giving a right to make an application to the Board respecting railway rates and imposing on the Board a duty to determine it."

"While the matter is arguable but need not be decided here, the Board does not consider that the Applicant or any person or company engaged in the trucking business is necessarily outside the Section merely because trucking is a relatively new business that has come into existence since the expression in question was first used in the statute."

"Having regard to the mischief which Parliament dealt with in the Railway Act and the remedies it provided and the rate control purposes and scope of that Act, to be entitled to recognition as a 'party interested' and therefore to be entitled to complain, under the Railway Act that railway rates are unjust or unreasonable, non-compensatory or lower than necessary to meet competition, the Board finds that the party by whom or on whose behalf such a complaint is made must have a more direct interest than that of a competing carrier whose interest is to lessen the competition provided by the railway, notwithstanding the provisions of the Railway Act which expressly permit the railways to publish competitive rates. This is not to say, however, that a person or company engaged in the trucking business might not have a status as a 'party interested' in a complaint alleging unjust discrimination in railway facilities, rates or services. This point need not be dealt with herein, since the Applicant is not alleging unjust discrimination."

It is not clear what the status of the trucking industry will be as "a party interested" under the National Transportation Act and it is submitted that this should either be clarified by amendment to Section 33 of the Railway Act or by an amendment to the proposed Section 45(a), inserting the words "or other carriers" in the line after the word "consignees".

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#### LORD'S DAY ACT

Section 11 of the Lord's Day Act permits any work of necessity of mercy on Sunday and specifically among the classes of work that are permitted under subsection (x) is any work that the Board of Transport Commissioners deems necessary to permit with the object of preventing undue delay in connection with the freight traffic of any railway.

There is a corollary in the Railway Act. Section 59, sub-section (1) provides for notice of any application to the Board of Transport Commissioners in connection with the freight traffic on any railway.

Section 20 of Bill C-231 amends the Lord's Day Act by substituting the Canadian Transport Commission for the Board of Transport Commissioners of Canada. This routine amendment does not take account of the requirement in Section 1 that "regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other mode of transport." Nor does it take account of the requirement that "this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation."

The amendment of Bill C-231 is undoubtedly considered routine. In fact, it is restrictive. It confirms a serious discrimination by the federal Government against the trucking industry, despite the fact that in the context of the Lord's Day Act, no such discrimination is practiced against any one of the other modes of transport under federal jurisdiction.

The Lord's Day Act, as presently constituted, prevents trucking companies from continuing the movement of their vehicles on Sunday. We appreciate that many people who drive automobiles on Sunday are likely to prefer no Sunday

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trucking operations (although the views of the motorist have nothing directly to do with the objectives of the Lord's Day Act). In the bumper-to-bumper driving conditions with which the motorist must contend on highways around our densely-populated communities, the motorist feels that he has plenty to contend with on Sundays, even in the absence of trucks.

We of the trucking industry are entirely sympathetic to this reaction. We also believe that there are circumstances confronting *some* trucking operations which require — and deserve — the thoughtful consideration of Parliament.

There are two categories of Canadian truck operators which are adversely affected by the ban on Sunday trucking imposed by the Lord's Day Act: (1) operators providing highway freight service on multiple-province hauls; and (2) operators, either interprovincial or intra-provincial, who provide highway freight service between points long distances apart. In these two categories, additional transportation costs and unreasonable delays in service are being imposed on certain trucking firms by the Lord's Day Act.

There is a number of long-distance trucking firms operating on runs of up to 2,700 miles which are also adversely affected by the Lord's Day Act. These are the firms providing service between Eastern and Western Canada. The situation is duplicated on the Central Canada-Maritimes run. Such operators often place the vehicles on sparsely-travelled roads upon commencement of the Lord's Day. It causes no inconvenience to the motoring public for the truck to continue to destination. Conversely, the driver's observance of the Lord's Day is not enhanced by having to stop since he is 'in service' during all of the time he is idle and is away from his family.

Undoubtedly it was in recognition of like circumstances that led the framers of the Lord's Day Act to insert certain provisions in respect to the operations of railways and steamships.



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So much for the position of rail and water transport. Let us turn to the position of the airlines. We are unable to find any provision in the Lord's Day Act which permits Air Canada and CPA to conduct 'wide open' operations on Sunday—freight and express as well as passenger. Air Canada's and CPA's Sunday operations—we do not deplore them but merely cite them as a fact—demonstrate a remarkable flexibility vis-a-vis the provisions of the Lord's Day Act. It is a flexibility which, in special circumstances, but not on a nation-wide basis as applies to Air Canada, CPA and other transport, the trucking industry also requires.

Our view of how other forms of transportation are dealt with inevitably raises the question of just and equitable treatment of all freight transport media, competitive, in certain spheres of operation, one with another. The trucking industry would be no more justified in complaining about competition from rail, water, and air than would these forms of transport be justified in complaining about competition from the trucks. We expect to have to meet competition on the basis of service and cost. We are fully prepared to do so. We contend, however, that we should not have to do so under federal legislation which immobilizes all long-distance trucks on Sunday while rail, steamships, and air transport are permitted to continue operations.

From the fact that the Lord's Day Act fails to make any mention of trucks, we do not infer that the Government deliberately discriminates against the trucking industry as compared with the treatment it accords rail, water and air transport. The Lord's Day Act ante-dates the development of the trucking industry. For this reason, and also because the Act clearly embodies the principle of special consideration for transport agencies in regard to necessary operations on the Lord's Day, we submit that the Act should be re-examined and amended: (1) to correct the anomalies it creates in respect to certain long-distance trucking companies; (2) to ensure fair and equitable treatment of all modes of

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freight transport. Such action by the Government will lead to substantial improvement of long-distance highway freight service in certain specific cases and will reduce costs at a time when other costs of truck operation are rising. We respectfully submit that these are desirable results from the standpoint of the shipping public.

We recommend that Section 11 (x) of the Lord's Day Act be amended to provide that there may be done on the Lord's Day any work that the Canadian Transport Commission, having regard to the objective of the Act and with the objective of preventing undue delay, deems necessary to permit.

We recommend that Section 59, sub-section (1) or the Railway Act be amended to provide that notice of any application to the Commission for permission to perform any work on the Lord's Day shall be given to the Department of Transport and shall fully set out the reasons relied upon.

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## MAXIMUM RATE CONTROL

Bill C-231 proposes radical reform of railway rate control. The Bill distinguishes—as did the MacPherson Commission—between maximum rate control. Both types of railway rate control are of direct concern to the trucking industry. Obviously, the railways must have the ability to compete in rates that the trucking industry has. No one in the trucking industry would argue otherwise. The railways are large, powerful and heavily subsidized companies. Either of the two major railways is far larger than any existing trucking company in Canada. The object, then, must be to guarantee a large measure of price freedom to the railways but, at the same time, prevent competitive pricing from being transformed into a monopolistic weapon designed to eliminate competition.

Section 53 of the Bill proposes that Section 336 of the Railway Act would establish a system of maximum rate control applicable to traffic captive to the railways and based on railway costs for what is considered a standard load of 30,000 pounds. In order to obtain the protection of maximum rate control, the shipper would have to declare that his traffic is “captive”. In exchange for the maximum rate, the shipper is bound to confine all the traffic in question to the railway at the maximum rate under the conditions stipulated in his application. The maximum rate and traffic commitment will be in effect for one year, in any case, and will continue so long as the rate agreed upon remains in force.

This commitment of traffic to the railway would, in fact, be a type of agreed charge but with two important exceptions: (1) 100 percent of the traffic in question would be committed to the railway, whereas even in the case of an agreed charge a shipper can negotiate a lower percentage of his total traffic commitment; and (2) agreed charges are a voluntary arrangement between the shipper and the railway, whereas the proposed system would imply an element

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of coercion. What the Bill says is this: ‘we give you, the shipper, protection against exploitation by the railways only if you commit all your traffic to railway transport’.

Canadian Trucking Associations has always argued that the objectionable feature of agreed charges, from the point of view of the public interest, is that it ties such a large proportion of traffic to the railways as to make any experimentation by the shipper with alternative means of transport extremely difficult, if not impossible. There is thus perpetuated a monopolistic condition in transportation. These objections apply with even greater force to the proposal of the Bill. The “captivity” of traffic is definitely an unsatisfactory condition. Therefore, it follows that any development which increases competitiveness in the transport field should be encouraged. However, competition in transportation cannot be established suddenly—it has always developed gradually through continuous experimentation by shippers and carriers. If shippers have to send 100 per cent of their traffic in order to be ‘captive’ no such experimentation nor gradual introduction of competition would be possible.

It is the view of Canadian Trucking Associations that the proposed rule for maximum rate regulation is unnecessarily restrictive for both shippers and competitive transport agencies. The results considered desirable under the legislation could be achieved if the treatment of captive traffic was changed. We propose that a shipper who can prove that if the bulk of his traffic moves by rail, he should be entitled to maximum rate protection without the necessity of binding more than 50 per cent of his traffic to the railways. In this way the shipper would be free to experiment with alternative means of transport without losing regulatory protection. At the same time, competitive carriers would be able to develop feasible alternatives and experiment with their practicability.

It is respectfully recommended that Section 336 dealing with "captive traffic" should not contain contractual commitment that more than 50 per cent of the traffic move by rail.

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### EFFECTIVE DATE OF FILED TARIFFS

Under Section 52, sub-section (3), Section 333 of the Railway Act would provide that a freight tariff that reduces any toll previously authorized to be charged under the Act may be acted upon, and put into operation, immediately on or after the issue of the tariff, and before it is filed with the Commission.

The effect of this provision has to be considered in relation to a non-compensatory tariff which may immediately be put into effect and which, even though complained of and subsequently found to be non-compensatory, could do untold damage to the trucking firm (or firms) which suffers the competitive impact of the tariff.

There would be some chance of avoiding this situation if a tariff reducing any toll came into effect ten days after such tariff was filed with the Commission. This would give sufficient time for complaint if there was *prima facie* evidence that a complaint was justified. It would give sufficient time to the Commission to consider whether the proposed tariff was compensatory.

We realize that the effectiveness of tariffs either increasing or decreasing rates and charges may require quick action on the part of the Commission. To achieve this, it may be necessary to give the Commission discretion to issue regulations in this matter instead of laying down strict rules in the statute. As an alternative, therefore, sub-section (3) of Section 333 of the Railway Act could be deleted and replaced with the following:

The Commission is authorized to enact regulations in the matter of the effective date of tariffs, rates and charges.

This provision could be extended to transport governed by Part III of Bill C-231 so that competing modes of transport will be on the same footing.



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## 2-3 ELIZABETH II

## CHAP. 59.

An Act respecting Extra-Provincial Motor  
Vehicle Transport

(Assented to 26th June, 1954.)

HER Majesty, by and with the advice and consent of the  
Senate and House of Commons of Canada, enacts as follows:

## SHORT TITLE.

1. This Act may be cited as the Motor Vehicle Transport Act. Short title

## INTERPRETATION.

2. In this Act,

- |   |                                       |
|---|---------------------------------------|
|   | Definitions                           |
| (a) "extra-provincial transport" means the transport of pas-<br>sengers or goods by means of an extra-provincial under-<br>taking;  | "Extra-<br>provincial<br>transport"   |
| (b) "extra-provincial undertaking" means a work or under-<br>taking for the transport of passengers or goods by motor<br>vehicle, connecting a province with any other or others of<br>the provinces, or extending beyond the limits of a province; | "Extra-<br>provincial<br>undertaking" |
| (c) "federal carrier" means a person who operates an extra-<br>provincial undertaking;  | "Federal<br>carrier"                  |
| (d) "law of the province" means a law of a province or mu-<br>nicipality not repugnant to or inconsistent with this Act;  | "Law of the<br>province"              |
| (e) "local carrier" means a person who operates a work or<br>undertaking, not being an extra-provincial undertaking, for<br>the transport of passengers or goods by motor vehicle;  | "Local<br>carrier"                    |
| (f) "local transport" means the transport of passengers or goods<br>by motor vehicle otherwise than by means of an extra-<br>provincial undertaking;  | "Local<br>transport"                  |
| (g) "local undertaking" means a work or undertaking for the<br>transport of passengers or goods by motor vehicle, not being<br>an extra-provincial undertaking; and   | "Local<br>undertaking"                |
| (h) "provincial transport board" means a board, commission or<br>other body or person having under the law of a province<br>authority to control or regulate the operation of a local<br>undertaking.   | "Provincial<br>transport<br>board"    |

## OPERATION OF UNDERTAKING.

Operating  
licence.

3. (1) Where in any province a licence is by the law of the province required for the operation of a local undertaking, no person shall operate an extra-provincial undertaking in that province unless he holds a licence issued under the authority of this Act.

Issue of  
licence.

(2) The provincial transport board in each province may in its discretion issue a licence to a person to operate an extra-provincial undertaking into or through the province upon the like terms and conditions and in the like manner as if the extra-provincial undertaking operated in the province were a local undertaking,

## TARIFFS AND TOLLS.

4. Where in any province tariffs and tolls to be charged by a local carrier for local transport are determined or regulated by the provincial transport board, the tariffs and tolls to be charged by a federal carrier for extra-provincial transport in that province may in the discretion of the provincial transport board be determined and regulated by the provincial transport board in the like manner and subject to the like terms and conditions as if the extra-provincial transport in that province were local transport.

## GENERAL.

Exemption.

5. The Governor in Council may exempt any person or the whole or any part of an extra-provincial undertaking or any extra-provincial transport from all or any of the provisions of this Act.

Penalties.

6. (1) Every person who violates any provision of this Act or who fails to comply with any order or direction made by a provincial transport board under the authority of this Act is guilty of an offence and is liable on summary conviction to a fine of one thousand dollars or to imprisonment for a term of one year or to both fine and imprisonment.

Disposition  
of fines.

(2) A fine imposed under subsection (1) shall be paid over by the magistrate or officer receiving it to the treasurer of the province in which it was imposed.

Proclamation  
in a province.

7. This Act shall come into force in a province only upon the issue of a proclamation of the Governor in Council declaring it be in force in that province.

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HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE  
No. 35

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FRIDAY, NOVEMBER 4, 1966

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Respecting

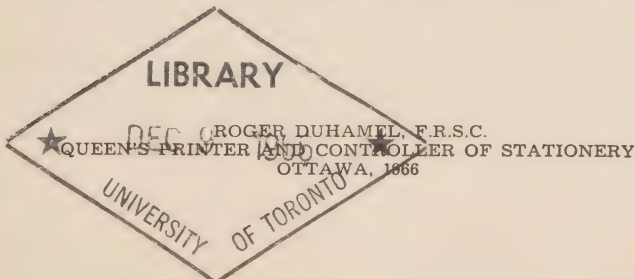
BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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WITNESSES:

*From the Manitoba Branch Lines Association:* Mr. J. C. Doak, Counsel;  
Mr. R. DePape, President; Mr. G. Jamieson, Vice-President.





STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice Chairman:*

and

Mr. Allmand	Mr. Howe ( <i>Wellington-</i>	Mr. Nowlan
Mr. Andras	<i>Huron</i> )	Mr. O'Keefe
Mr. Bell ( <i>Saint John-</i>	Mr. Jamieson	Mr. Olson
<i>Albert</i> )	Mr. Langlois ( <i>Chicoutimi</i> )	Mr. Pascoe
Mr. Cantelon	Mr. Legault	Mr. Reid
Mr. Deachman	Mr. MacEwan	Mrs. Rideout
Mr. Groos	Mr. Martin ( <i>Timmins</i> )	Mr. Sherman
Mr. Horner ( <i>Acadia</i> )	Mr. Mather	Mr. Southam
	Mr. McWilliam	Mr. Stafford (25)

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

FRIDAY, November 4, 1966.  
(59)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Cantelon, Deachman, Horner (*Acadia*), Howe (*Wellington-Huron*), Groos, Jamieson, Langlois (*Chicoutimi*), Legault, Macaluso, Mather, McWilliam, O'Keefe, Pascoe, Reid, Southam (16).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Mr. Régimbal, M.P.; Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance: From the Manitoba Branch Lines Association:* Mr. J. C. Doak, Counsel; Mr. R. DePape, President; Mr. G. Jamieson, Vice-president.

On motion of Mr. Pascoe, seconded by Mr. Legault,

*Resolved,*—That the brief submitted by the Manitoba Branch Lines Association be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-27).

The Chairman, Mr. Macaluso, invited the President to make an opening statement on behalf of the Manitoba Branch Lines Association.

Mr. DePape introduced Mr. Doak and asked him to summarize the brief of the Manitoba Branch Lines Association.

At the conclusion of the summary, Honourable J. W. Pickersgill commented briefly on the submission.

The Members examined the witnesses.

At 10.55 o'clock a.m., the meeting was adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

FRIDAY, November 4, 1966.

● (9.45 a.m.)

The CHAIRMAN: Gentlemen, we have a quorum. We have before us this morning the brief of the Branch Lines Association of Manitoba. The witnesses presenting the brief are, to my right, Mr. J. C. Doak, counsel, Mr. R. De Pape, President of the Branch Lines Association of Manitoba and Mr. G. Jamieson, the Vice President. The brief has been in your hands for over a week and therefore I will ask Mr. Doak to touch on the highlights rather than read the brief. May I have a motion to print the brief in its entirety as an appendix?

Mr. PASCOE: I so move.

Mr. LEGAULT: I second the motion.

Motion agreed to.

The CHAIRMAN: Mr. De Pape would like to say a word.

Mr. R. DE PAPE (*President, Branch Lines Association of Manitoba*): Mr. Chairman, I have a few leaflets here which contain the French version of what I was going to say, if anyone would care to have one. Mr. Chairman and members of the Committee on Transport and Communications, I would like to make a brief and formal statement prior to the submission of our brief. My name is Rene De Pape. I am a feed mill operator at Somerset, Manitoba, and president of one of the 21 local branch line associations which collectively make up the Branch Lines Association of Manitoba.

In December of 1963 a group of citizens in the Somerset area called a public meeting which was organized for the purpose of presenting their case to whatever authority was created to deal with the proposal of CNR to abandon the branch lines serving my area. Our group at Somerset became known as the Lorne Branch Line Association, and it was the first of 21 branch line associations which were organized for this purpose in their respective areas.

I am also president of the Branch Line Association of Manitoba and I am accompanied by our Vice President, Mr. Gregor Jamieson of McAuley, Manitoba, our Executive Secretary, Mr. Fred Pelly of Winnipeg and Mr. J. C. Doak of Virden, Manitoba, counsel for our association.

This is my first appearance before your committee, although this is the second presentation by our association. Our first submission was in March of last year, at which time it was thought it might be useful for your committee to have the reaction of our members to the abandonment procedure used in the past. This time we have some observations to make on the general principles involved in Bill No. C-231 and some suggestions concerning specific sections of the bill. We appreciate the privilege of appearing before your committee and we hope that you will find our observations and suggestions helpful in designing a bill that will serve the best interests of all concerned.

I have the pleasure of introducing Mr. J. C. Doak, counsel for our association, who will present our brief.

Mr. J. C. Doak (*Counsel for Branch Lines Association of Manitoba*): Mr. Chairman, honourable minister and members of the committee, as the Chairman of your committee has mentioned, this brief has been before you for a while so I will just deal with the opening and closing, summarizing the highlights of the central portion and making a few comments.

As we have mentioned in our brief, we would like to commend the government, the House and particularly your committee, in bringing forward this bill. We understand that a transportation authority was advocated in almost every brief in your cross-country fact-finding tour earlier in the year, and whether this authority will meet the needs of the nation and the communities along these branch lines, and the people in the railways, is going to depend on the form this bill takes. The form this bill takes is going to be largely dependent upon your recommendations.

The recommendations of the branch line association fall into two phases. First, principles which we believe will assist national transportation authority in meeting the needs of the people, the community, as well as the railways, and such variation in wording, which is set out in detail in the brief, which would more clearly achieve these objectives.

In summary, one of our first opening points was public notice. Very briefly, we did not feel that publication in the *Canada Gazette* as such, rather than publication in the *Manitoba Gazette*, would be public notice in the real and true layman's sense. As we pointed out, many forms of notice, whether they be notices to creditors or notices of lost title involving individuals, have a wider publication than the *Canada Gazette*, such as the local newspaper or a daily published in the area. We suggest that the minimum publication be one daily newspaper, and preferably a weekly, in the area. This is the wording we have suggested not only on the original application but on the notice for the hearing of the application and on any reconsideration of the application. Incidentally, you will recall that the Royal Commission on Transportation, Volume II, page 73—it is not in the brief—that the commission read a full announcement in all communities concerned. So, our minimum recommendation of at least publication in one daily newspaper circulating in the area is somewhat more modest than the recommendations of the commission, and we would strongly urge that at least this minimal recommendation be inserted, and preferably through all communities in the area concerned, as in the original royal commission report.

We also refer to posting in the stations. We do not feel that posting in the station, particularly after the abandonment is under way, is notice because we feel many of these stations are manned by caretakers, some of them are just a janitor, or sometimes not at all. Therefore, the form of notice should be uniform and again we would suggest a uniform publication in a daily. If there is posting, that it be posting in a post office or the municipal offices.

Now, as to the form of the notice and the timing. We would respectfully suggest the form of notice be of a minimum size, preferably a display type ad and not lost in the fine print among the tenders and legal notices, and that a minimum time from publication to the occurrence of the event be given. The royal commission stated that sufficient time should be allowed to file statements

and the board should have an opportunity to request additional information. Now, if this is going to apply to the various parties it would seem that at least a minimum of 30 days, and probably 60 days, should be given by the time the material is published and any counter statements are filed and further statements requested from the board. Now, as to hearings, I believe it has been pointed out by other groups before you that a hearing is a basic right before any commission, before any court, and this is a court of record under the bill. Therefore, we particularly take strong exception to the words "if any" in section 134. If these are deleted then it would read "public hearings". We would also ask that the words "public hearings" be inserted in the other sections, such as on the reconsideration, and we also point out that the royal commission report stated "Public hearings will be held". This again is an absolute minimum, we feel, and that there must be a public hearing on each application, each reconsideration or each order affecting these communities whose lifeblood is the line that would be under consideration. We did have a comment also that one party should not specify the order of hearing, but rather the commission or the parties themselves should do this.

● (9.55 a.m.)

Fourthly, we dealt with the matter of public interest and economics. Our point was that these two matters should be dealt with concurrently. We realize that section 314c., in referring to economics in subsection (1) and then in subsection (3), does set out the various factors which are to be taken into consideration in the public interest. But these could be taken more as an afterthought or as a diminishing effect or a softening of the blow, once the determination on economics is made. We feel that in the public interest these factors should be considered concurrently. We feel they should be a principle factor, with the factor of whether the line is economic or not. Now, you had before you the president of one of the air lines, and I quote from his comments, "that transportation and public interest are so intertwined that you cannot treat them separately at all". Therefore, we would respectfully request that in section 314c., (1) and (5), both on the original and the reconsideration, it be clearly stated that these matters be treated not merely as relevant matters but as matters of equal priority and actual factor involved.

Also referring to section 314c., it is not actually mentioned in our brief specifically but we did refer to taking out the word "immediately" after "whether the line should be abandoned immediately or after a period" because we feel the word "immediately" is too restrictive on the commission and, further, we feel it should not be a question of whether it is abandoned immediately or after a period, but whether it should be abandoned or not.

Secondly, you will note it states that if in the last year there is no loss, it should not be abandoned. We feel this criterion should be enlarged, that it should not be just in the last year, but if it is economic it should not be abandoned at all. Or if there are factors relevant to the public interest why it should not be abandoned, then it should not be abandoned. In other words, the sole criterion should not necessarily be whether it is economic or not. We also feel that the use of the word "economic" in section 314c., (1) is loaded, against the public. For instance, if you look section 314c., you will see, in determining if it is uneconomic, it states that if there is a "loss in any one or more of the prescribed



accounting years". So, whether it is uneconomic or not is determined by ascertaining if there is a loss in any one or more of the accounting years. But if it were economic and is to be rejected, it is only if there is no loss in operation in the last prescribed accounting year. So, "economic" is only gauged by the last accounting year and "uneconomic" is gauged by any one or more of the prescribed years in the accounting period. We would say, rather, that whether it is economic or not should be determined by all the years in the prescribed accounting years and not loaded in effect, against the public interest in that respect.

With respect to branch or railway lines, as we have mentioned, we notice that the heading in this particular part of the bill is related to rationalization of lines or operations. Then the subheading refers to branch lines. Now, is it not railway lines that we are concerned with, whether they are branch lines or whether they are not branch lines? Under section 168 of the original act it refers to them as "any line". If the word "branch" is to be added, then what about the main lines? Now, we notice by the mines and technical surveys' maps that certain lines which you probably would not normally consider main lines, such as the C.N.R. Portage-Glasgow and Dauphin, is shown as a main line. Then the question arises is the C.P.R. Winnipeg-Edmonton a main line? It is submitted that actually the word "branch" really does not serve the purpose that was intended—I think it has come about through the use of it in the commission report—and that the word "branch" should be deleted from section 314, particularly in sections 314B, 314c and 314g, and it should be a question of whether we abandon a railway line or not.

We also think that one should look at this bill to see what is protected. Is it two tracks of steel or is it the operation of a line? Under section 314(G), referring to the protection of the line, we suggest that the words "the operation of" should be inserted before the words "branch line" or "lines", whichever you may have. That is, "the operation of the line". We think the operation and the maintenance should be protected, otherwise you will run into planned obsolescence through either a lack of maintenance or excessive maintenance, either of which could purposely render a line uneconomic. I know you will say there are minimum standards required in the act with respect to the maintenance of the line, but we all know what happened to the Dominion.

Dealing with service, we have pointed out in our brief various aspects of service which we see no provision for to protect the standards, facilities, staff on duty, evening wire, telephone service, baggage checking, freight and prompt reservations. There is no order of reservations, particularly in some cases on a private line, where they seem to fill in the reservations from the major points and afterwards, if there are vacancies, they fill them in from the local points. The same applies to the provision for service box cars and other commodities. We believe that a line without minimum maintenance and a line without service is not a line.

As far as matters relevant to the public interest are concerned, and in particular section 314(C), the opening words of section 314(C)(3) refer to matters that are in its opinion in the public interest. That is, in the commission's opinion. Now, we suggest that the words "in its opinion" should be deleted and that the words "may be" in the public interest be substituted therefor. That is, the commission should not prejudge what is

relevant but should hear all that may be relevant and then decide on its relevancy. There should be no preliminary rejection of what may be relevant. We suggest that section 314(C)(3), subsections (a) to (h), be enlarged; for instance, subparagraph (d), referring to the effect on other lines. What about the effect on the part of the line that is left? There is also reference to considering other alternative means of transportation in the area, but what about alternative transportation for that type of product? It is not always a case of is there a bus, but is there a unit that can carry grain or a bulk commodity of the type that is going to be most adversely affected by the abandonment of this line, because all types of transportation are not similar types of transportation and therefore we must consider the alternative types of transportation.

In that respect I would like to make reference to a comment in the report of the royal commission on the handling of bulk products: "Grain handling facilities exist on all lines in the Prairie provinces as grain cannot normally be economically moved from one country elevator to another or from a country to an export terminal by truck. The loss of a rail line results in a loss of the grain facilities associated with it." That is the point. That is at page 77 of the Royal Commission Report, Volume II. We realize these are only guides and, like many guides, they will become over time almost principles of determination. We feel that most of these guides that have been set out, as to whether it is contrary to public interest or in the public interest, are of a negative nature, a defeatist nature. They presuppose that this line is going to be abandoned and it is merely a question of time until we abandon it, and how do we soften the blow. Now, this is with the exception of the last two or three, which suggest some pooling or re-organization of facilities. We suggest some positive factors in our brief at page 8, such as the public interest, the local interest and the general potential of the area.

Now, I would like you to look at the map of western Manitoba. You have heard rumours of the length of time, and it has not been too long, that we have been sitting on a very substantial potential potash development, almost 100,000 acres under lease and permit, in that area that is served by branch lines which normally only handle grain. So, these types of things must be looked at; the natural and other resources of the area, the increase in grain, volume, freight and industry in the area, the size of the community, the size of the facilities and the population. But most important are the various federal and provincial and municipal programs of incentives for developing the area. For instance, in western Manitoba they have just formed Westland Regional Development Corporation, consisting of 61 municipalities, to industrially develop western Manitoba. What a retrograde step it would be in certain cases to remove some—not necessarily all—of these particular lines. We also must consider the effect on industry of a rail monopoly when you remove one line and you have no competing line operating there. This means you get back to the situation of Winnipeg—and the effect on Manitoba—being the industrial centre when you move the competing railway out. You cannot diversify your industry.

● (10.05 a.m.)

Now, referring to winter, and seasonal restrictions. We have run into this and you will remember how we were tied up last March for a week or two when nothing moved but the rail. Also, and you must remember this, could you build a highway as cheaply as the annual deficit on that branch line to move that

grain? Would the maintenance of that highway alone for carrying bulk products and grain not come to more than the loss on that branch line annually? Of course, any highway is built entirely through subsidizing and at your cost.

We also feel that the manner of operation of these lines should be looked into. It should not be just a one-sided affair as to whether the communities are growing or whether they are pulling their weight or doing a job in the area, but is the railway doing the job? What have they done as far as servicing is concerned? Have they let the line slip? We have assumed that the communities are dying and we have assumed that the rail would not be needed. This assumption is actually contrary to government efforts; it is contrary to the type of development incentive program we have been undergoing.

It is also important to note the complete reversal of the trend in the last four, five or six years, from the time of the MacPherson commission, and the two principal basis on which this bill is based, gentlemen, have been almost totally in error since the time of the original commission hearing. I would particularly refer you to volume II of the royal commission at page 69. As I read the forecasts you will know the answers right away. Here is the forecast for agriculture. It says that in the agricultural industry grain transport will decrease in relative importance and may decrease absolutely as compared with the last ten years. Well, this has been the exact opposite to what has taken place and what we had the figures for.

Secondly, it appears that there will be a continuing trend to process foods near production points and ship only the finished products to market. Now, gentlemen, this processing of the products and the feeding of the cattle at the western points for shipment east is something we would like to see increase for the diversification of industry. Any of those of us who have been associated in any way with any feed project knows that it is a very tough project to make pay. I do not know whether the one at Moosomin has paid. The one at Virden has not paid, and I know the result is that cattle are still going out substantially in bulk. So, as far as the agricultural industry was concerned, this commission report was based on a decreased grain trade and on a decreased bulk cattle shipment. That is why we suggest that the bill must be reviewed in this light.

It must also be remembered that roads are built at public expense, they are a subsidy to the truckers, and with the grain traffic growing, with the potential of mineral traffic that has occurred in eastern Saskatchewan and is now a very strong potential in western Manitoba, what about the cost of money tomorrow if those lines have to be replaced. We hear of apartment blocks being built in Vancouver with vacancy capacity because it is cheaper to build today than tomorrow. Is it not cheaper to keep the rail lines that were built 50 or 60 years ago and which were laid when money was relatively cheap?

Branch air lines have found it difficult to operate at a profit and the need is recognized that we need a new air policy. What does this new air policy include? It includes the subsidizing of regional carriers contributing to the national interest. Because this need still exists in the new air policy, why should the rail policy be reversed? Why should we not continue, when it is to the advantage of the country, the community and the railway, to carry the subsidization?

We have also taken into consideration the appeal provisions. In referring to appeal we refer to the basic right of appeal. Now, we realize that there is provision in this bill for appeal but we are suggesting that it should be clearly



stated that there is the right of appeal within a certain time after the abandonment application under 314c.(4) We are also saying in effect that the appeal should not be to the body of first resort. Now, we realize that normally this will be struck off in committees of three, and you will have a railway committee who may sit on the abandonment and an appeal would probably—as indicated in the bill—be made to the commission as a whole. Now, my point is that the commission should not be sitting as a court of last resort on its own committee, which is part of the commission, as a court of first resort. We are suggesting that the administration and the judicial functions be separate. It is respectfully submitted that the appeal should be to an outside body, a body not closely associated, in effect, with the trade, a body that can apply a truly objective approach on appeal. We would prefer the governor in council, or a body of the house, or possibly a revolving body of this committee, if this is feasible, or a judicial body. Abandonment is too closely involved with the local and national interest, therefore the body that sits on this appeal should have a broad lookout and an understanding of all the interests of the nation and not just that of transportation. We also feel a period of 30 days is too short, it should be 90.

Firstly, with respect to this body, we say the hearing should be separate from the court of appeal; separate and divorce the administrative from the judicial. The commission is given power to call for applications for abandonment, to make recommendation in respect of operations and then to hear such applications. Also, if you will look at section 16(b) you will see that the commission is to undertake study, recommend policy, establish standards and it is to participate—it is the commission that is going to be the court—in the work of integrated organization as to transport. So that it is to be a functionary body and at the same time it is to be a judicial body sitting, in effect, on appeal and as a court over its own administrative policy and its own participation under section 16. We suggest that the four functions of research, administrative, executive and judicial be separated—at least as to judicial. That is, that the active function of the participant must be separate from the objective function as a judge of what was done. The judicial function should be completely divorced, just as you have your regulatory body, the B.B.G., separated from the C.B.C., and the minimum recommendation of this branch is that these functions be separated and at least the administrative area be placed separate from the judicial. You have the personnel in this body, it would not create the need for more personnel. We suggest that there be two separate bodies and that they be separated, just as your police magistrate and your policemen. We always endeavour to separate these two groups. They may both be under the Attorney General's department but we endeavour to keep the magistrates separate from the police, and they presumably meet only at the hearing.

● (10.15 a.m.)

We also suggested that all applications should be heard under clause 314 and not just under clause 168. However, we understand that the hon. Minister has indicated in the House of Commons debate on September 8, 1966, that this would be so. We have a new authority, we have a new policy, we have a new bill, and therefore all applications should be heard under the new clause 314.

Just a comment on clause 336, the fixed rate. The association considers this particular clause, with all due respect, completely impractical and unworkable.

This section, in effect, requires ten to twelve hurdles for the captive shipper. The probable range, the fixing of the rate, the variable costs, the written undertaking, at least a year or so to ship, minimum shipment, books and records available, may recover the excess over the maximum rate, the commission may cancel the rate, copies of letters, documents and correspondence between the shipper and the railway, and so forth, must be filed. Then there is an application form to be completed, and finally it can only apply between points in Canada and it is to be reviewed after five years by the commission.

Our comment on this on page 13 is, to all intents and purposes, who could go through this? Who could afford the time and effort, and why should one? Surely there is a better manner of protecting a captive shipper and the public interest.

Our comment on clause 317 is that the individual shipper should not be required, in effect, to protect the public interest on his own initiative against the railway and its resources with rates already imposed. We are suggesting that the commission can also institute such action. I realize that under clause 334 (5) the commission can, where a rate is not compensatory, initiate the action. Clause 317 does not merely refer to rates which are not compensatory, it refers to any act or omission in the making of rates or in any field, any individual who is taking up a cudgel in the public interest. We feel that the commission should do this; it should not be incumbent on any one individual.

We now come to confidential information. We feel in reference to "confidential" in 387C—and references to this have been made in hearings before you—that really the competitor probably knows more than the people who are coming before you. The public has the least facility to ascertain what these rates are, they have the least resources, and they are the people that are most affected. The competitor has a good idea of what they are, and we feel that "confidential" can only hinder a proper determination on hearing of this, and it will not adversely affect the railways because of their competitive relation in the business and their knowledge of the trade.

In dealing with the matter of "confidential", if costs in items like this are to be confidential, the abandonment is primarily based, as we have seen, in the present bill—until these factors of public interest are brought up to a larger proportion—on whether the line is economic or not. Whether a line is economic or not depends on costs, and whether you can deal successfully with the application depends on these facts at issue, which are the costs. As the newspaper reports have shown, the president of one of the railways appearing before this Committee indicated that the companies are claiming, and will claim, that cost figures, or some of them, are confidential. To deny the cost figures or claim they are confidential is, in effect, to eliminate the process of hearing. Therefore, this association cannot stress too strongly that if the parties are to meet these applications and deal with them, they must have the figures; otherwise the whole basis and process of the bill affords little, if any, protection to the public.

With regard to clause 314A, referring to cost and revenue, we presume that the accounting procedures would be fixed by regulation. We hope that they would be fixed after hearing with all parties concerned, and that these costing procedures would be constant or that they would be known from application to application, so that we are not met with varying procedures by the railways at the different hearings.

The traffic figures also should be available in preparing the counter-applications. It is not specifically referred to in the brief, but I do feel that this costing procedure is the whole key. I do feel that you can wipe out the whole system of transportation—particularly transportation by rail—by artificial, by technical and by impractical procedures.

I can think of one example, and I did not select this one, it just happened to be the only application I happened to have at the house when I was reading over the brief before leaving on the plane, and it was one on the Lenore subdivision. In looking it over we found that between 1961 and 1963 the revenue on the system was up 25 per cent. We found that the grain handling in some elevators was down as low as 12 per cent, in others it was up 60 per cent, but the overall increase in the area to be abandoned was up 30 per cent over the last ten years. In the last three years, 1961 to 1963, the commodity increase was up 10 per cent and the grain was up 50 per cent, and these are in the three years picked by the railroad. On these three years, then, the average revenue of this line was up 25 per cent. After you deduct the direct on-line costs, the profit picture was 160 per cent on this line, but it was only when you added the overhead of the CPR., plus the charge on their money if they salvaged the track, that they showed a loss. They show a cost of \$186,000 on the track and \$21,000 on their money, which I compute at about 12 per cent. What small businesses in your area can operate with accounting procedures like that? Businesses can get 12 per cent on their money, but what businesses can operate with that overhead? If you take the overhead that you are allotting to these branch lines, if this branch line or one like it is abandoned, where does this cost go then? It goes on the remaining branch lines, and then they become more uneconomic because they are bearing a heavier load. Then it falls on the main line, and after it falls on the main line the trunk of the tree has to bear the whole load and the main line becomes uneconomic. A tree will not live without its branches and mechanical, fixed, computer, artificial cost methods can put a person or a business out of business.

Another interesting aspect is that when you look at these figures, after they have added the cost of money at 12 per cent and after they have added all these other factors, this line will lose \$74,000—not initially, it had a profit of almost that—but it lost \$74,000. It has 21 miles of track and that is under \$2,000 a mile. Now what all-weather highway can you build and maintain for under \$2,000 a mile? A rail line, I suggest, gentlemen, under those circumstances is a real bargain. To put it bluntly, it is a steal at those prices.

There is another aspect in the report of the royal commission. I suggest that we cannot look entirely at abstract accounting, because in referring to the royal commission report at page 37 in Volume I, admittedly this is one of the dissenting or separate observations of one of the commissioners, but he says firstly, I believe, that Canadian Pacific Railway, having obtained certain very real advantages when it undertook in perpetuity to accept the ceiling on these grain rates, became a party to a contract which is still in effect and which must be abided by. Then the commissioner goes on and points out the Manitoba argument, and shows where the city of Winnipeg attempted to change its agreement with the CPR, and the CPR fought it all the way to the Privy Council to uphold the sanctity of this contract.

In view of the fact that the C.P.R. insists that other parties must consider the benefits which they have received from agreements with the company, I



cannot accept the position that we must now disregard the benefits the C.P.R. have received from the Crow agreement. So, all these aspects must be taken into consideration, but they are not the same accounting aspects which you may apply in the abstract to a business sitting in Montreal or to a branch line sitting out on the prairie. In the oil industry I often think of the accounting procedures that we attach to these oil wells. Sometimes when we are dealing with a major, company we will attach accounting procedures which will require you to produce a 32 barrel a day well but you can produce these wells as low as seven barrels a day and make money. The difference between 7 and 32 barrels a day, I suggest, is the difference, in many of these branch lines, between the accounting procedures which are used and the accounting procedures which might well be used.

● (10.25 a.m.)

I would suggest that, although our brief is not directed primarily to accounting procedures—this will be dealt with more, I understand, by the provinces and the pool and so forth—this could be the thing which could wipe out your efforts no matter how far we go towards public hearings, appeals and the other mechanics which we have suggested. Do not lose sight of the accounting procedures.

In closing, here we have a new approach. We have a bill which is new and we have the machinery, but has the machinery changed? We have the old regulations, rules and orders, and I know they are to continue until they are repealed, but we have the same persons. Do we have a new car but with the same drivers? Will it drive any better? That is the point. Rail is an essential industry—it is a public duty—and it is respectfully submitted that the bill should not place, or seem to place, in priority the interest of railways to that of the public.

We are entering a period where incentives are being given to other industries to decentralize both for the development of the nation and its survival. There has naturally been demands by the railways for more compensatory rates and for more abandonments, but there has been equally a strong and consistent demand from the public for the appointment of a national transportation authority to safeguard and protect the transportation needs of the people of Canada and to arrest retrograde steps in transportation which would deplete the rural population and depress the development of large areas of Canada.

What is urgently needed is a new transportation authority to safeguard the social and economic survival and the well-being of all parts of Canada. Further, that absolute unconditional priority should be given to these factors as well as to any economic savings on any particular branch line.

All of which is submitted respectfully by the Branch Line Association of Manitoba. Thank you, gentlemen.

Mr. HORNER (*Acadia*): Mr. Chairman, I would first like to compliment Mr. Doak and the Manitoba Branch Line Association for their very full explanation of their brief and for their very full and knowledgeable understanding of the direct application this bill will have on the commodities and their particular problem in Manitoba.

I was quite interested in your last remark on page 15, and also the one on the bottom of page 14. At the bottom of page 15 you say "What is urgently needed is an authority to safeguard social and economic survival and the well-being of all parts of Canada." At the bottom of page 14 you say: "The bill should not seem to place in priority the interest of the railways to that of the public."

Actually this bill arises from the MacPherson Report, as you are well aware. Do you think that at the time of the MacPherson Report the whole rail industry was in a pessimistic atmosphere which is not apparent today?

Mr. DOAK: This is certainly so as far as the shipment of grain is concerned, as we have shown. The shipment of grain, which is one which I just picked up the night before last, is up 30 per cent on the average, 50 per cent in the last three years and 30 per cent over ten years. I believe, Mr. Jamieson, the vice president has a line up of the McAuley line which is shipping out there. and I believe your shipments are up 30 or 50 per cent, too, are they not?

Mr. G. JAMIESON (*Vice President, Branch Lines Association of Manitoba*): They are up about the same average.

Mr. HORNER (*Acadia*): Not only, though, with regard to grain. Take western Canada, or even large parts of eastern Canada. Is there not a new vigor in resource development, particularly in the potash industry in the west? Even the uranium industry, which back in 1958 and 1959 was in the doldrums, is gaining. You can go into British Columbia and say the same thing for the lumber industry. You can go down to the maritimes or northern Quebec with the iron ore, and so on.

What I am trying to say is this: This bill is derived from the MacPherson Report. The MacPherson Report was written and the conclusions drawn during a period in Canada when the whole transportation industry was in the doldrums and had a pessimistic outlook. Do you agree with this summation?

If the bill is drawn in that atmosphere, perhaps the bill is in error. This is what I think you are trying to suggest in these two paragraphs which I have read.

Mr. DOAK: Also, in the two quotes to which I referred from the report on the forecast on the agricultural industry, and the danger of experts and studies forecasting too far ahead and how wrong we could be. At that time it sounded logical, probably, as shown on page 69 of volume II of the forecast. I suggest, respectfully, that this is the wrong time to be considering rail branch line abandonment. We have seen a 25 to 50 per cent increase in the last few years. What other business is doing this? Let us carry on for another three or six years, if we are going to be up 50 or 75 per cent, and then we are going to have to put that line back. What is it going to cost us?

Mr. HORNER (*Acadia*): Yes, I agree; but perhaps I should say, first of all, that I agree with a lot of what you say in the brief. I agree with the public notice question; I agree that appeals should be to a different body and, that the administration and regulatory body should be separate. I agree with those three particular parts, but I want to deal with this questions of public interest versus the railway interest or that of other modes of transportation.

Up until this time, and even as of now, the public interest is protected to a certain degree, and the captive shipper is protected by the Board of Transport Commissioners. For example, before a rate increase can be made—particularly a non-competitive rate increase—by the railroads they have to have full approval from the Board of Transport Commissioners. Am I right on this?

Now, in this new bill, the direct reversal is going to be true. The railways can make the increase and if somebody finds himself a captive shipper the onus is on him to prove that this is not in the public interest, or that this is harmful to his industry and that he should have his rate set. You say that the bill should not, whereas I say that the bill is actually placing the interest of the railways over that of the interest of the public.

Mr. DOAK: It has shifted the onus.

Mr. HORNER (*Acadia*): It has shifted the onus.

Mr. DOAK: Not just to the public, but to the individual to take up the public interest, and how many individuals or businesses have the time or the facilities to do this?

Mr. HORNER (*Acadia*): I want to say again that I compliment you on your brief and on the understanding contained in it. I am so much in agreement with you that I just want to compliment you for the able presentation of your brief. I hope that all members of the Committee will bear witness to the facts that you have given and the conditions under which this bill has arisen, which are not with us today. The whole transportation and freight industry has an optimistic look to the future, and this bill was drafted on a pessimistic basis.

I will forego any further questions at the moment.

Mr. SOUTHAM: Thank you, Mr. Chairman.

I would like to reiterate unconditionally the remarks which Mr. Horner has made with respect to the comprehensive brief which Mr. Doak and his associates have presented here this morning on behalf of the Manitoba Branch Lines Association. In my opinion, they have demonstrated to the Committee a full knowledge of the problems which exist in western Canada, and coming from Saskatchewan, a neighbouring province, I am definitely concerned with the same problems. I feel that Mr. Doak has certainly given us a very worthwhile brief.

We have been privileged to have the honourable Minister with us for several days during these hearings. It has been very helpful, I think, in these hearings to have comments from him with respect to certain aspects of the brief. If the Committee will go along with me, I would like to hear a few words from the Minister with respect to this brief. I think it will eliminate a lot of questions and save time.

Mr. PICKERSGILL: The House meets at 11 and I would not want to monopolize all the time. If it is felt that it would be helpful, there are one or two things I would like to mention.

In the first place, there was the point made about hearings. I think I have made it clear from the time the Pools made their presentation, and to everyone else who has made a presentation, that if there is any doubt that hearings are required on every aspect of any potential abandonment we will make sure that the bill is redrafted so that they will be provided.



With respect to the question of costing, we have made it very clear that we intend to leave no doubt in this bill that, the costing procedures will provide for public hearings where such are desired.

● (10.35 a.m.)

With regard to the bifurcation, if I may put it that way, of the commission, since your brief was actually submitted to us I have reiterated, what you were good enough to refer to in your presentation, my statement in the House of Commons, that although there is to be a single president there are to be two vice presidents, one in charge of the research and advisory activities and another who would preside over the regulatory functions. There are, on the regulatory side, to be no administrative functions that are not ancillary to the regulatory functions; just as at the present time there is the clerk, or the secretary, of the Board of Transport Commissioners, who has to send out the notices and do all these things. It is not intended there should be any mixture of what might be called administrative functions, in the sense in which the Department of Transport has them, and the regulatory functions of the commission. I think, therefore, your point is substantially met as far as that is concerned.

I think, perhaps, there is some validity in your suggestion regarding the provisions in the bill with respect to the abandonment of lines. I am rather taken with the idea that we should not make this rather artificial distinction between branch lines and main lines, or if we should, we should define the main lines quite clearly.

When we come to abandonment I think perhaps it would be helpful to put in the bill some of the positive points which you have mentioned on page 8 of your brief. I think the reason it does seem to be negative is that the assumption is that the railways are not themselves—after all their business is to make a profit—very likely to apply for abandonment of a line unless they genuinely feel that they are losing money. If they do, then we ought to get new managers for the railways, because it would seem a pretty stupid way to run a business to try to end some of the profitable aspects of it.

I think I sense what you mean, that you want a greater emphasis on the importance of retaining these lines in the public interest rather than paying attention to the interest of the railways. That, of course, is the whole purpose of the bill. The whole purpose of the bill, in respect of branch lines, is to provide that the public interest will be paramount and that even if the railways are losing money we will pay the railways to keep the line in operation if the branch line is more valuable than some alternative would be.

I quite agree with you that if there is a relatively minor loss on a branch line and it would cost a lot more to provide alternative means of necessary communication, it is a lot more sensible to keep the branch line. But, of course, we had another brief from Manitoba a couple of days ago suggesting that in some cases—and we found that in New Brunswick in a celebrated case that Mrs. Rideout knows about—you are going to get far better return by capitalizing the loss of the railway and putting it into a contribution to a good provincial highway which would be used not just to carry wheat, but for all sorts of other purposes for which the branch line would not be used. These things have to be balanced by the commission. Remember that all this money is now going to come out of the Treasury, whichever way it goes, and the Minister of Finance is going

to want to get the best transportation for the amount of money he is asked to expend. I think that is one idea—and we sometimes perhaps are not used to it, it is a new idea—that it is not going to be the railways in the future, it is going to be the government which is going to determine whether or not it is more important from a social and economic standpoint to keep the line and pay the loss or to make some other provision that would, perhaps, make a greater social and economic contribution. I think, perhaps, that meets that point.

The other thing which, perhaps, I might mention is—and I do not say this in any critical sense at all—that we had this map up here and you did not say a word about it, if I remember rightly. I was wondering if you did not recognize that this whole approach of guaranteeing the vast majority of the lines until 1975 was not an entirely opposite approach to that of the MacPherson Commission, and that it was not a much better approach and much more in line with what you have in mind? When you look at the lines on the map which are not guaranteed and you remember that not even one of them can be abandoned without a hearing and a full consideration, you will see I think that we are taking account of the fact that in the last three or four years the whole outlook has changed, as Mr. Horner has so rightly said. I totally agree with him. It is not on every occasion that I can agree so wholeheartedly with Mr. Horner as I do on this particular occasion.

Mr. HORNER (*Acadia*): I am very pleased to have you agreeing with me.

Mr. PICKERSGILL: I would not even be so mean as to suggest that there has been a change of government. I would not think of saying that.

There is no question that there is a much more optimistic outlook. It is based on facts, as Mr. Horner rightly pointed out; it is not merely the vast improvement in the wheat situation, both in production and in the opportunities for export, but also this tremendous potash development, the continued increase of the oil and gas business in western Canada and the gradual growth of secondary industry.

Mr. HORNER (*Acadia*): I think it should be pointed out also that this upturn in the economy started in 1961. I know the minister would agree with me on that.

Mr. PICKERSGILL: Oh, yes; the last thing I would want to do would be to get into a dispute about that.

I am not going to go too far, because I want the experts to look at it—I am not a draftsman—but in the main I think our objectives are very similar, and I agree with what has been said by Mr. Horner and by Mr. Southam that this presentation of yours is a very constructive presentation. The only possible criticism I would have is that I think it is perhaps a little less optimistic than Mr. Horner and I are.

Mr. CANTELON: Mr. Chairman, I want to congratulate Mr. Doak on the presentation of this brief and to say that what I was going to say has been pretty well covered by the Minister. Everything I wanted to emphasize he has agreed with wholeheartedly. I am glad to see that he feels the situation is so different today from what it was when the report of the MacPherson Commission came out. There are some of us who felt this was extra-pessimistic and we are glad to see the minister now agrees that it was, too.

I think, from what he has just said, that he would feel that there is going to be quite a lot of re-drafting of this bill and I hope I am correct in that interpretation. Otherwise I think I will just let it go at that and congratulate you again on this brief. It has brought forward some points that have not been too well emphasized before, particularly this matter of minimum publication and separation of the judicial and administration functions of the new commission.

Finally, nobody has said very much, so far, about the obtaining of costing information. We have been trying to get some of it, too, and have not had much success.

Mr. PASCOE: Mr. Chairman, I also just want to say that this is a very good brief, and I am glad that the minister was here and took it all in. I think he has pretty well agreed with it.

The arguments are set out very forcefully and they apply just as well to Saskatchewan as they do to Manitoba.

● (10.45 a.m.)

I think you have pretty well clarified the problem of the captive shipper. In this regard I just want to emphasize what you said, that grain cannot be economically moved over great distances by truck. I think that is quite important with regard to captive shippers.

The minister referred to this map, and in your statements you referred to the potential of the area. I was just thinking again—I asked this question before when other witnesses were here from Manitoba—of the line up to Hodgson, which is in the black line up there, and which is not frozen. Is there great potential in that area? Would that line be required in years to come?

Mr. DOAK: First of all, thank you for raising the matter of that line. I was thinking of it when the minister was speaking and was referring to our honourable Leader of the Opposition in Manitoba having referred to it, and some of the good suggestions that both he and the minister had to make in this respect. This Hodgson line—I will not say that it is a peculiarity—is different from many of the other lines in Manitoba in that you will see in the other parts of Manitoba that there is a fairly heavy grid system of highways. Mr. Molgat has quite correctly taken an area in which, although there is a highway up there, there is not a highway comparative to the highways that follow the lines to the east and west.

I was speaking with the member from the district a few minutes ago and I understand that all the elevators are on the north end of the line, and that you can go across from Poplarfield, straight across to the top of the line to the east, which is about 16 miles. If you were to build a line there—I believe the Menzies report suggested this—then the line could be abandoned from the south because the next elevators are down just north of Grosse Isle where it joins the line not to be abandoned. Therefore, so this is a peculiar situation.

There are only two words I would have to say on Mr. Molgat's suggestion. First, the highway principle is probably peculiar to this particular line. Second, as you have pointed out, and as the commission has pointed out, it would not be feasible to haul the grain down from Hodgson to Grosse Isle. This would just be



out of the question. The answer is, no doubt, a highway system in that area, but preferably a rail line across there as the minister mentioned a moment ago.

Mr. PICKERSGILL: You should say a hard surface highway. In 1925 when I was riding my bike in that area, it started to rain, and it was the best Manitoba gumbo in that country that I have ever seen in my life.

Mr. PASCOE: This is just a very brief comment. On page 3 you refer to newspapers, and so on. I am thinking also of TV and radio. I imagine they will do it, but the commission should send out some kind of a notice to all the newspapers, TV and radio on which they could base a news report. It would not cost anything, but I think that it would get to a lot more people.

Mr. DOAK: Ours was only a minimum suggestion, Mr. Pascoe.

Mr. PASCOE: I realize that; but I think a news report would cover more.

Mr. DOAK: We were not intending to restrict the TV business.

Mr. PASCOE: I will finish with this one comment, that I agree wholeheartedly that we should not presuppose abandonment of lines and that we should take a more optimistic view of future potential. That is all I have to say.

The CHAIRMAN: I want to thank Mr. Doak, Mr. DePape and Mr. Jamieson for being with us today to present this brief on behalf of the Branch Lines Association of Manitoba. It has been well received, and it is a good brief, and from the minister's comments I think you can be a little optimistic.

Before adjourning I want to bring to the attention of members of the committee that on Monday we will convene at 3.30 p.m. At that time the Department of Transport will table what amendments they have available for the committee and will give some verbal explanations of why the amendments are being brought forward.

Tuesday morning at 10 o'clock we will be hearing the Province of British Columbia and if the D.O.T. are not finished with the amendments on Monday we will try and have them again on Tuesday or Wednesday.

Mr. PICKERSGILL: I wonder if I could say a word about that? There are some amendments which I think will be based on the trucking representations that were made yesterday, and I do not think that it would be possible to have them by Monday in the form in which we would like to present to the committee. They would be ready by Wednesday. We have had a chance to consider most of the other briefs which came earlier.

The CHAIRMAN: I am informed that whatever amendments are available will be brought forward on Monday. The rest will be brought forward during the week.

Thursday we will hear from the Mining Association of Canada, the Winnipeg Chamber of Commerce, and there may also be heard next week the Canadian Maritime Transport Commission.

Mr. HOWE (*Wellington-Huron*): We have had a lot of briefs and a lot of suggestions, and it is pretty hard to keep them all segregated. Would it be possible for a list of the suggested amendments to be made for us?

Mr. PICKERSGILL: I think we could undertake to have that done so that when the committee was ready to consider the bill clause by clause which I gather you hope to start soon—

The CHAIRMAN: We have confirmation from the Government of Manitoba's counsel, Mr. Mauro, that they will be here on Thursday, November 17 for all day. We will start clause by clause consideration on the 18th.

Mr. HORNER (*Acadia*): What about the Province of Alberta?

The CHAIRMAN: We have not heard from them, but we are prepared to leave a date to hear them during that time.

Mr. PICKERSGILL: With respect to these various suggestions for amendments, I do not think it would be a very great task—except that it will be quite laborious—to make a table of all those that have been suggested in the various briefs, so long as the committee does not hold us responsible for the summary and if the committee would agree that the summary made by the department was the best we could do. We do not want to reproduce the briefs. In other words, that perhaps someone who has produced a brief, who would feel that we had not summarized his amendment quite properly, would not hold the civil servant accountable for deliberate misrepresentation. I think it would be very helpful for the committee to have this,—I do not think it should be an exhibit—as a document prepared for their convenience. On that understanding I would undertake that by the 18th we would have a summary of all the amendments which have been received, except, possibly, those from the Government of Manitoba which is only going to appear the day before. It depends how early we get their brief. If we get their brief early enough we will include theirs, but if we do not it will be fresh in everyone's mind anyhow.

The CHAIRMAN: Thank you, Mr. Pickersgill.

Mr. SOUTHAM: Mr. Chairman, the Clerk of the committee may have already had this in mind. I was wondering if he could follow through with a similar schedule on the one we have been working on.

The CHAIRMAN: We will have the Clerk send out a new agenda, subject, as I say, to the appearance of the Canadian Maritime Transport Commission. We stand adjourned until Monday, November 7, at 3.30 p.m.

## APPENDIX A-27

## THE BRANCH LINES ASSOCIATION OF MANITOBA,

without being presumptuous, would like to commend the Government, the House and particularly your Committee in bringing forward a Bill providing for a national transportation authority.

We are given to understand that this was advocated in one form or another, in almost every brief placed before you earlier this year in your country-wide fact finding examination at the ground level.

Whether this authority will meet the needs of the Nation, the communities whose existence depends thereupon, the people and railways, depends on the form of Bill C-231. The form of this Bill is, we trust, largely dependent upon your recommendations.

The recommendations of The Branch Lines Association of Manitoba for your consideration are directed towards two phases.

- A. Principles that will assist a National transportation authority in achieving its objects and to meet the foregoing needs, as well as those of the railways.
- B. Such variations in wording and phrasing in Bill C-231 that would more clearly achieve the above principles in the public interest.

1. *Public Notice:*

Should be public notice: That is in the true and practical sense. The Canada Gazette is not a commonplace widely read publication by the people in an area to be effected. Matters such as Notice to Creditors in an Estate, lost title of an individual and like matters (of a less public nature than calling for applications for abandonment) are required by statute, to be published in at least one newspaper in the area (in addition to the Canada or Manitoba Gazette). Therefore the minimum publication of any notice under the Bill should include (in addition to the Gazette) one daily newspaper and preferably a weekly newspaper in the area:

i.e., Sec. 314B (page 21, line 13)

add after word "Gazette"

"and in at least one daily newspaper published or circulating in the areas effected".

*Sec. 314C*

- (1) there should be adequate public notice of the hearing of an application to abandon.
- (3) there should be adequate public notice upon the consideration of all matters relevant to the public interest.
- (5) there should be adequate notice upon a reconsideration of the application.

Orders prohibiting abandonment should be published and like minimum notice given:

i.e., Sec. 314G (1).



Notice of applications to abandon Sec. 314B (3) and of the report of loss, Sec. 314B (4) and of abandonment, Sec. 314C (6), should likewise be by public notice. Posting in a station, of the former quasi commission notice and of the latter commission notice, is not sufficient public notice. The stations in question, particularly on branch freight lines, are often merely occupied by a caretaker or janitor. The public, communities and farmers would more likely use the elevators, stock yards and freight facilities. Notice should be uniform as above recommended, such as in a daily newspaper. If there is to be posting, it should be in the post offices or municipal offices, not just the station.

## *2. Form of Notice and Time.*

A notice, to give adequate notice, should be a minimum size or preferably a display ad and not lost in fine print or in a long list of legal notices and tender notices. As with other statutory notices, a minimum time should be allowed between the publication of the notice and the occurrence of the event.

## *3. Hearings*

As in other matters effecting the rights of individuals, the basic right to a hearing should exist on an application to abandon or to review any application, or before an order of the Commission. Commissions, boards and courts do not normally make an order or take a step in any proceeding effecting the rights of an individual, let alone the public interest, whole areas, communities, or an essential industry; without a hearing and adequate notice thereof:

### *Sec. 314C*

- (1) (page 22, line 10)  
delete words "if any" after the words "public hearings".

### *Sec. 314C*

- (3) (page 23, line 17)  
add words "at a public hearing" after word "consider", or other word to effect same.

### *Sec. 314C*

- (5) (page 24, line 20)  
add words "at a public hearing" after word "reconsider", or other words to effect same.

One party such as the railway should not specify the order of hearing in Sec. 314C (2) (c), but rather the commission or the parties by agreement.

## *4. Public interest and economics.*

It may be presumed that the matters relevant to the public interest set out in 314C (3) would be considered at the hearing upon the application to abandon concurrently with the determination of whether the line is economic under Sec. 314C (1). But for certainty and clarification the words "and determine whether there are matters relevant to the public interest why the line should not be abandoned" should be inserted after the word "uneconomic" in para. 314C (1) (page 22, line 13), or otherwise tied into this sub-paragraph so that there is no question that these matters must be determined concurrently with whether a line is uneconomic or not and so that the public interest is not just considered but actually a predominant factor in the decision to abandon or not. As the President

of one of the Air Lines stated "Transportation and public interest are so intertwined that you can't treat them separately at all".

Upon reconsideration under Sec. 314C (5) (b) the factors in Sec. 314C (3) should also be clearly stated to be the facts to be considered concurrently with the question of economics upon the review. The public interest, local interest and the communities and the area should not be merely relevant matters to be considered as incidental to the economics of that line and interest of the railways, but of equal priorities and the actual factors involved.

*In para. 314C*

(1) (page 22, line 14)

the word "immediately" should be deleted and also the words "if so" in the same line should be deleted.

It need not be so restrictive on the commission and should be left to the commission and the circumstances. In the same subparagraph—

*page 22, line 12*

delete "to it appear" and substitute "are" relevant.

#### 5. *Branch Lines or Railway Lines?*

Actually the principal heading before Sec. 314A is "Abandonment and Rationalization of lines or operations", yet the sub-heading is uneconomic branch lines. Why should the word "Branch" not be deleted throughout? Is it not railway lines that are to be considered, abandoned or protected? Sec. 168 of the original Act refers to the abandonment of any line.

If the word "Branch" is to be added in this Bill, then are the main lines not to be protected? Some lines are marked on maps as main lines that may be no more active than some branch lines (i.e., CNR Portage la Prairie—Gladstone—Dauphin, etc. shown by Surveys Branch, Department of Mines, as main line).

If the words "Branch line" are retained and defined in the Bill in relation to main line, then should not main line be defined? Is above CNR line a main line? Is Winnipeg to Edmonton of CPR—main line?

Therefore it is submitted that the word "Branch" should be deleted and in particular from Sections 314B, C, and G.

#### 6. *What is protected—two tracks of steel or the operation of a line?*

Sec. 314G (1) (a)—(page 28, line 44) refers to designating areas within which (Branch) lines shall not be abandoned. It is respectfully submitted the words "the operation of" should be inserted before the words "(Branch) lines" or "lines".

Further, it is submitted, that it is the operation "and maintenance" of the line which would have to be protected, otherwise we could run into planned obsolescence and lack of or excessive maintenance, either of which could purposely render a line uneconomic. One might say minimum standards of maintenance are already required, but what happened to the "Dominion" passenger train?

As to service: There appears to be little guarantee...protection-standard...facilities...station staff on duty when trains...evening service on wire, phone (train information without long distance)...baggage,

checking, express, freight service . . . reservations, prompt? no order of reservation . . . modernization . . . provision necessary to provide service, box cars and to move commodities. A railway line without minimum maintenance and service is not a line.

*7. Matters relevant to the Public interest.*

Sec. 314C (3)—(page 23, line 18) provides that the Commission shall consider all matters that, in its opinion are relevant to the public interest:

“in its opinion”—should be deleted and the words “may be” substituted therefore. That is the Commission should not pre-judge what is irrelevant but should hear all that may be relevant and then decide on its relevancy. There should be no preliminary rejection of what may be relevant.

Sec. 314C (3) (a) to (h)—should be enlarged to include such items as effect on the rest of *the* line, as distinguished from other lines in sub-paragraph (d). Alternatives in item (b) should not be just alternative transportation to the area, but should specifically include alternative transportation for the products carried by the line under consideration (i.e., most areas have forms of alternative transportation, but not necessarily alternative transportation for the product carried by the line—carload shipments of grain and bulk products).

Most of the sample factors listed are of a negative nature, defeatist and presuppose eventual abandonment (except (f), (g) and (h) and the easing of the time of abandonment on the area; rather than positive factors that offset or compensate for the uneconomic, or warrant retention of the line.

Such positive factors should be included and prior to the negative factors, as follows:

- The actual public interest.
- The local interest.
- The general potential of the area.
- The natural and other resources of the area.
- Any increase in the area in
  - grain volume
  - freight volume
  - industry
  - size of community
  - size of facilities
  - population
  - Federal, Provincial and Municipal plans, program and incentives for the development of the area.
- resulting transportation monopoly, or at least a one-company rail monopoly in the communities or area.
- effect of loss of competitive rail rates on area, communities and industrial development and decentralization.
- winter and seasonable restrictions on other transportation.
- feasibility of lease or other arrangement with any company (not just railway company) or any governmental body (municipal, provincial, or otherwise).
- the manner in which the line has been operated.



—Why and whether the operation thereof had any effect on it being uneconomic and whether the lack of revenue or traffic was in part due to the manner of operation.

That is, any short coming of the railway in the area is just as much a factor as any decline in the area and may be causing or contributing to the latter. We have for too long assumed our communities were dying and that the rail would not be needed. That is an assumption that is contrary to government efforts and an assumption that is surprising for a young country.

We have assumed what is not economic in railway branch lines is basically not sound or may not be in the national interest. That is contrary to those development programs that do not measure the results solely in dollars, but in the resulting development, broadening of the economic and public interest.

Branch air lines have found it difficult to operate at a profit but the need is recognized and we read that the new air policy includes, in some cases, subsidizing the role of regional carriers and contributing to the national interest by producing air transportation in areas where the service was not available.

Just as subsidization of branch air lines may be in the National interest, so may subsidization of branch rail lines continue to be in the National interest.

#### 8. Appeal.

*Firstly*, Sec 314(C) (4) should be subject to the basic right of appeal.

*Secondly*, the body of hearing in the first resort should not be the last resort; nor the body of appeal. Sec. 314 refers throughout to "the Commission". The Bill defines Commission as the Canadian Transport Commission. The appeal from a committee of the Commission, Sec. 17(4), is to the Commission. In effect, to itself. Incidentally the Act does not appear to provide for the railway committee of the Commission to be the commission or to hear the matters in Sec. 314.

In any event, it is respectfully submitted, that the appeal should be to an outside body, a body not closely associated in effect, with the trade, a body that can bring a purely objective approach on appeal; preferably the Governor-in-Council, or a body of the House of Commons, or even a Judicial body. As abandonment is so closely involved with the local and national interest, the appellant body should be one that can and does have a broad outlook and understanding of all interests of the Nation and not just that of transportation.

Sec. 314C (4) (a)—(page 24, line 13), the words "ninety days" should be substituted for "thirty days" to allow always for a minimum re-adjustment of ninety days.

#### 9. The Commission—Divorce administrative from judicial.

The Commission is given powers to call for applications for abandonment, to make recommendations in respect to operations and other matters to railways, and then to hear such applications.

The Commission, in its functions of advocate and judge, should be clearly separate, as well as the function of the Commission in the capacity of expert witness, administration and research. That is, not only should the capacity of witness, advocate and judge be separated, but the four functions of research, administrative, executive and judicial be separated, at least as to the judicial. At

present it is like having the same person as court clerk, crown attorney, witness and judge.

The judicial should be completely divorced from the administrative in respect to the judicial function performed by the Board. Further the regulatory body should not be associated with the administrative; i.e., separated as the B.B.G. is from the C.B.C. and as is recommended often, that the police offices be separated from those of the magistrate. Close proximity to the administrative, or to the trade, unintentionally erodes independence and objective thought of the judicial.

The minimum recommendation of the Branch Lines Association of Manitoba would be that all administrative functions be divorced from all judicial functions and the administrative put under an Administrative Officer. That is, although the police and magistrates, at provincial levels, both come under the Department of the Attorney-General, yet there are continuing recommendations and efforts to keep the two functions entirely separate and almost out of communication, except of course, when a matter is placed before the Court in hearing.

*10. All applications should be heard under Sec. 314—Not old Sec. 168.*

Sec. 314F should provide that all existing applications under Sec. 168 are in effect withdrawn and that all applications should be submitted under Sec. 314. We understand The Honourable Minister so indicated in the House of Commons debates September 8th, 1966, p. 8206.

*11. Section 336—to fix rate.*

This Association considers this section completely impractical and unworkable.

At the expense of being redundant, this Association computes that there are ten to twelve hurdles that the captive individual shipper must contend with—

(1) captive shipper must apply for a probable range,

(2) captive shipper then applies to fix a rate.

(3) captive shipper then faced with variable costs and costs of capital approved by Commission as proper for CPR.

(4) shipper must then enter into a written undertaking with railway to ship.

(5)(a) shipper must ship for at least a year and so long as fixed rate maintained.

(5)(b) to get the fixed rate there must be a minimum shipment.

(6) shipper must make books and records available or face cancellation of rate.

(7) if fixed rate cancelled company may recover from shipper at the maximum rate.

(8) at any time after the year Commission may cancel fixed rate.

(9)(a) shipper application must be accompanied by copies of all letters between shipper and railway.

(9)(b) form and content of applications may be determined.

(13) shipper limited to sending goods between points in Canada.

(16) after five years Commission to report on operation of Section

To all intents and purposes who would go through this? Who could afford to in time and effort and why should one? Surely there is a better manner of protecting the captive shipper and the public interest.

No provision in Section 317 for an individual to procure public hearing and notice. The individual therefore is left to protect the public interest at his initiative against the railway and its resources with rates already imposed by railway. The limited protection to the public under 317 might well be increased by a 317 (1)(b) providing that the Commission shall, if the public interest is prejudicially effected, take action on its own initiative.

### 12. Confidential?

Sec. 387C refers to information that is by its nature confidential, procured from a company by the Commission, shall not be revealed. Y E T

- abandonment is primarily based on whether a line is economic or not
- whether a line is economic or not depends on costs
- whether an application can be successfully met depends on dealing with the facts in issue; i.e., costs,
- newspaper reports of one railway President's appearance before this Committee indicates the railways are claiming or will claim cost figures, or some of them, are confidential,
- to deny the cost figures or claim confidential is to eliminate the process of hearing.

Therefore this Association cannot stress too strongly that if parties are to meet these applications and deal with them, they must have the figures or else the whole basis and process of the Bill affords little, if any, protection to the public.

Section 314A refers to actual loss as to being excess of costs over revenue. If costing or accounting procedures are not fixed by the Bill, it is respectfully submitted, same should be fixed by regulation after hearing of all parties so that procedures will be relatively standard from application to application. As costing procedures change, then so should the regulations embodying same, so that interested parties know on what basis they must deal with cost.

"Traffic figures", Sec. 314D (5)—(page 26, line 24)—should be available on application in preparing counter applications. In order to prepare intelligent application and to save time at a hearing, and to clarify the issues and key points or figures of dispute, either party should be able to have a preliminary examination.

### 13. A New Approach.

Much has been said over the years of a new approach and concept in transportation. The Bill is new, the approach is new, but is the machinery unchanged? The old regulations, rules, order and directions continue until repealed. Sections 80 and 91 provide for other continuations which could tend to prevent the new approach. (Part VI).

Rail is an essential industry and has a public duty. It is respectfully submitted that the Bill should not place or seem to place in priority, the interest of the railways to that of the public. We are entering a period where incentives are being given to other industries to decentralize, both for the development of the Nation and its survival.



There has naturally been demands by the railways for more compensatory rates and for more abandonments; but there has been equally as strong and consistent demands from the public for the appointment of a national transportation authority to also safeguard and protect the transportation needs of the people of Canada and to arrest retrograde steps in transportation that would deplete the rural population and depress the development of large areas of Canada.

What is urgently needed is a new transportation authority to safeguard the social and economic survival and well-being of all parts of Canada. Further that absolute unconditional priority be given to such factors as well as any economic saving on a particular line.



HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 36

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MONDAY, NOVEMBER 7, 1966

TUESDAY, NOVEMBER 8, 1966

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Respecting

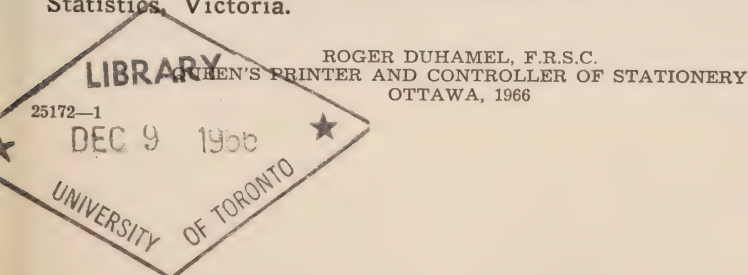
BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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WITNESSES:

*From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director of Railways and Highways; Mr. Jacques Fortier, Director of Legal Services and Counsel. *Representing the Government of British Columbia:* Mr. C. W. Brazier, Q.C., Provincial Counsel; Mr. J. I. Guest, Economic Consultant; Mr. Norris Martin, Supervisor of Research and Development, Pacific Great Eastern Railway; Mr. R. B. Pederson, Research Officer, Bureau of Economics and Statistics, Victoria.





STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice Chairman:*

and

Mr. Allmand,	Mr. Howe (Wellington-	Mr. Nowlan,
Mr. Andras,	Huron),	Mr. O'Keefe,
Mr. Bell ( <i>Saint John-</i>	Mr. Langlois	Mr. Olson,
Albert),	(Chicoutimi),	Mr. Pascoe,
Mr. Cantelon,	Mr. Legault,	Mr. Reid,
Mr. Deachman,	Mr. MacEwan,	Mrs. Rideout,
Mr. Groos,	Mr. Martin ( <i>Timmins</i> ),	Mr. Sherman,
Mr. Hopkins,	Mr. Mather,	Mr. Southam,
Mr. Horner ( <i>Acadia</i> ),	Mr. McWilliam,	Mr. Stafford—(25).

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

MONDAY, November 7, 1966.

(60)

The Standing Committee on Transport and Communications met this day in camera at 3.30 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Allmand, Andras, Cantelon, Deachman, Groos, Howe (*Wellington-Huron*), Hopkins, Langlois (*Chicoutimi*), Legault, Macaluso, MacEwan, Martin (*Timmins*), Mather, McWilliam, O'Keefe, Pascoe, Southam (18).

*Also present:* Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance: From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director of Railways and Highways; Mr. Jacques Fortier, Director of Legal Services and Counsel.

The Chairman introduced the officials from the Department of Transport.

Mr. Baldwin tabled suggested amendments to Bill C-231, and the Clerk distributed copies of these amendments. Mr. Baldwin explained that some of the amendments were as a result of recommendations contained in the various briefs while others were of an administrative nature originating within the Department of Transport.

At 4.05 o'clock p.m., the meeting adjourned until 10.00 o'clock a.m. on Tuesday, November 8, 1966.

TUESDAY, November 8, 1966.

(61)

The Standing Committee on Transport and Communications met this day at 10.17 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Cantelon, Deachman, Groos, Horner (*Acadia*), Hopkins, Langlois (*Chicoutimi*), Macaluso, Mather, McWilliam, Nowlan, O'Keefe, Pascoe, Reid, Sherman, Southam, Stafford (17).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance: Representing the Government of British Columbia:* Mr. C. W. Brazier, Q.C., Provincial Counsel; Mr. J. I. Guest, Economic Consultant; Mr. Norris Martin, Supervisor of Research and Development, Pacific Great Eastern Railway; Mr. R. B. Pederson, Research Officer, Bureau of Economics and Statistics, Victoria.

On motion of Mr. Mather, seconded by Mr. Reid,

*Resolved*,—That the brief of the Government of British Columbia be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-28).

The Chairman introduced the representatives of the B.C. Government and invited Mr. Brazier to make supplementary remarks to his brief.

The Members examined the witnesses on their presentation.

There being no further questions, at 12.20 o'clock p.m., the meeting adjourned until 9.30 o'clock a.m., Thursday, November 10, 1966.

R. V. Virr,  
*Clerk of the Committee.*



## EVIDENCE

*(Recorded by Electronic Apparatus)*

TUESDAY, November 8, 1966.

The CHAIRMAN: Gentlemen, we have a quorum.

For those of the members who are here I would like to state that there will be no meeting tomorrow, as was suggested yesterday, on the further amendments. In view of the way in which the amendments have been presented, we thought it best that the Department of Transport circulate the additional amendments with explanatory notes on the bottom. These will be in the hands of the members of the Committee when the officials of the department appear again during the clause by clause study, and if there are any questions on those particular amendments they will be answered at that time. This is in order to save the time of the department and of the Committee, in view of the fact it just did not seem that there was anything gained by yesterday's procedure. We decided it would be better just to circulate them, with explanatory notes on the bottom.

Mr. CANTELON: I did not object yesterday, Mr. Chairman, but I found it impossible to fit those amendments in the proper place and at the same time look over the act. I wonder if—

The CHAIRMAN: I discussed it with Mr. Baldwin this morning and we agreed that the best procedure would be to circulate them beforehand with explanatory notes.

Mr. CANTELON: Are we going to have them in such a form that we can clip them and put them into the act?

The CHAIRMAN: They are going to try. Mr. Cope is here, and they are going to try to see if they can do it. It is not necessary to have the preamble, Mr. Cope, but just the page, the section and the amendment, so that it may be clipped out and pasted into the bill.

We are to hear this morning the submission of the province of British Columbia. On my immediate right are Mr. C. W. Brazier, Q.C., Provincial Counsel; Mr. J. I. Guest, Economic Consultant; Mr. Morris Martin, Supervisor of Research and Development of the Pacific Great Eastern, and Mr. R. B. Pederson, Research Officer, Bureau of Economic and Statistics, Victoria.

I would ask for a motion to print the main brief as an appendix to today's proceedings.

Mr. MATHER: I move that the main brief be printed as an appendix to today's proceedings.

Mr. REID: I second the motion.

The CHAIRMAN: All in favour?

Motion agreed to.

The CHAIRMAN: I have explained to Mr. Brazier that it is the long-standing policy of this Committee that the main brief will not be read, as it is in the hands of the Committee beforehand, but that the summary will be read and the highlights touched upon. The members are well acquainted with the questions which will be asked. Mr. Brazier?

Mr. C. W. BRAZIER (*Provincial Counsel, Province of British Columbia*): Mr. Chairman, I was going to ask the indulgence of the Committee in respect to the presentation here. It did not seem to me that it was sufficient just to read the summary as it was. I will not pretend to read the full brief, but I think the members of the Committee will appreciate that the province of British Columbia, along with the other provinces of Canada, has spent a great deal of time over recent years in the study and consideration of the problems facing the railways of this country.

I had, personally, the privilege of representing the province of British Columbia before two Royal Commissions and I consider myself still a relatively young man, although some of my juniors would not think so. We have put in a tremendous effort over the years. I think the department and the Minister, I am sure, will appreciate the untold amount of hours which were put in trying to trace the problem, as we saw it, before the various bodies which have dealt with it in that time.

The CHAIRMAN: Mr. Brazier, I appreciate your comments. However, all other witnesses have abided by this policy, and they spent a great deal of time on their briefs also—and this is no criticism. We do feel that we want to be co-operative, but at the same time it has been the policy of this Committee, and the unanimous policy of this Committee, and vehemently stated by this Committee, that briefs are not to be read. At times, when the Chairman has been flexible, he has been very much criticized by members afterwards. Therefore, I think, it is a precedent which has been set with this Committee because of the knowledge of the members of this Committee on transportation, and I think, perhaps, if you could go along with your summary and touch the highlights, we will go from there. I feel that we cannot allow the complete reading of the brief. This has been the policy of this Committee.

Mr. BRAZIER: As I said before, in view of the ruling of the Chairman of the Committee, I would not read the brief in full, but I—

The CHAIRMAN: I do not want to restrict you, Mr. Brazier, you know, but if you could refer to your main brief and the highlights—

Mr. BRAZIER: Yes; I would like to touch on the highlights of my brief and the summary itself.

The CHAIRMAN: That is fine.

Mr. BRAZIER: At the bottom of the first page, I have stated that the province of British Columbia had suggested that transportation should reflect, as closely as possible, the cost of producing the services and hence we have advocated a cost-oriented rate structure.

Now, we made this presentation also before the Turgeon Royal Commission in 1950, and it is dealt with by the Turgeon Report at page 118. I might say that the Turgeon Commission did not accept our proposal at that time, but they stated very succinctly the position which I had advanced to that commission, in these

words: "Counsel for the province stated: 'We have at no time suggested that the cost of service principle should be applied rigidly and we have not done this simply because of the difficulty of determining costs with accuracy and because also it would seem not unreasonable to assume that the mark-up on costs, or in other words the profit, would vary somewhat from one class or commodity to another.'"

I think today we make the same criticism of the provision of the bill which adopts this principle of a cost oriented rate structure.

We feel, generally, that we support the bill. We do think that a wrong emphasis, however, has been put in the bill upon the recommendations and the background of the MacPherson Royal Commission. The Royal Commission was set up not to free the railways from regulation, and this seems to be the main purpose of the present bill—to free them from regulation—but the terms of reference of the Royal Commission were stated very briefly in the Order in Council. It was to enquire into the inequities in the freight rate structure; their incidence upon the various regions of Canada; and the legislative and other changes that can and should be made in furtherance of national economic policy to remove or alleviate such inequities.

It was not the railways who asked for the Royal Commission to be appointed. It was the shippers and the provinces. That was the evil at which it was aimed. I do suggest to the Committee that quite a different emphasis has been put upon the results of this Royal Commission in the bill which has been suggested. We suggest that this Committee should in the public interest, bring more balance into the bill.

I emphasize, too, in the brief that Canada is still not in a completely competitive transportation environment. There are areas and there are commodities and forms of transportation which are still subject to monopoly rules. The President of the CPR in his presentation, I understand, before this Committee, pointed out that 110 shippers gave the CPR 70 per cent of their traffic, and that 30 per cent came from other hundreds of thousands of shippers. It is those hundreds of thousands of shippers who need protection. The 110 are large shippers, and I am quite sure that they are able to negotiate and obtain from the railways rates which are quite satisfactory to them, but the thousands of small shippers cannot possibly look after themselves individually.

Under the present act, there is certain definite protection given to the shipper in the provisions on unjust discrimination both for the shipper and for the locality. You have to bear in mind that those provisions are entirely eliminated from this bill, and we think that it is dangerous to do this. The small shipper has to be protected in the act.

The act does provide that anybody who feels that the rate charged to him is not a proper one, may go to the Transport Commission and prove that in the public interest it is an improper rate. Gentlemen, I do not know whether any of you have ever had the experience, as one individual, of trying to prove that something is against the public interest—that something which affects you particularly is against the public interest. It is almost an impossible thing to prove. How can one man's business be in, or against, the public interest? Therefore we have suggested a slight amendment to the act that the words "or



his business" should be added to the proposed clause 317(1). In other words, if he can show detriment to his business, then he has the right to get before the commission.

Now we come to what I am sure is going to be the most controversial clause of the act—and I think the Minister and the department appreciate this—and that is the maximum rate provision that the maximum rate is based on 30,000 pound cars and 150 per cent mark-up over variable cost. I would like to go back and just emphasize once again what I said as far back as 1951, and that is that we do not suggest that the cost of service principle should be applied rigidly because of the difficulty of determining the cost with accuracy. It has always been realized that there was a difficulty in determining cost with accuracy.

The situation, of course, has improved immeasurably since 1951, and the railways today, I am satisfied, can to a very great degree, determine their costs. Also, on the assumption that there should be a definite mark-up on costs, that mark-up, in my opinion, should vary according to the traffic to which it is being applied.

We are quite frank about it, that we ourselves have not yet been able to come up with a suggestion, acceptable to the department, on just how this particular provision should be changed, but we are satisfied that 150 per cent over variable cost is just—if I may put it in the strongest possible terms—a ridiculous percentage to apply. I think the CPR witnesses, or one of the railway witnesses—possibly the CNR in this case—stated that, on the average, 70 per cent of railway costs are variable, leaving 30 per cent fixed cost. Now, 30 of the 70 is only about 43 odd per cent, and a far cry from the 150 per cent mark-up which is to be permitted by the act.

We have not, and we cannot, measure this accurately because we do not have the accurate costs from the railways. As a result of that, we have attempted in the brief to indicate to the members of the Committee just how far out of line this 150 per cent will be when related to what other costs we have been able to ascertain. The costs, of course, which we have been able to ascertain are those published by the Inter-state Commerce Commission in the United States.

On table number 5 in our brief we show what the mark-up is in four of the main regions of the United States, and the mark-up varies from 24 to 35 per cent. Again, that is tremendously different from 150 per cent. We think the evidence is perfectly clear that the amount is utterly excessive.

As I stated, however, we realize that we do not have the answer. We do not know what it should be. It is for that reason that we, therefore, suggest a transitional step between the passage of this bill and the final determination of what the mark-up rule should be and how the cost should be based.

Our cost-oriented system was never related to a fictitious amount of weight in a box car. We always thought that it would be related to the actual movement. Our table number 7—it is the last table in the brief—indicates what the actual shipping weights are for the major commodities shipped from British Columbia in the year 1964. You will note, I think, that there is not one commodity there which ships 30,000 pounds; 40,000 is the lowest; the average is 80,000 pounds; and it varies anywhere up to a high of 145,000 pounds. Those are the shipping weights which we say should be considered in determining what the costs are.

However, we are most anxious in British Columbia to see a step forward in this matter. I have been instructed, on behalf of the government, to compliment the Minister for finally having brought the MacPherson Commission Report to this final stage.

The act, as now drawn, does provide that a study will be made of the Crowsnest grain rates during the period of the next three years and that there will then be reported to parliament the loss which has been incurred by the railways on that. We are suggesting—and I emphasize this very much on page 13 of our brief—an amendment which would give the same waiting period to the determination of what the maximum rate control provision should be. During that time the new commission could study the situation from actual figures which they have before them and recommend to the department what the formula should actually be. We are suggesting an amendment, and I emphasize this because we think it is very important, that clause 336 be amended so that "...the commission may after such investigation as it deems necessary fix a rate equal to the variable cost of carriage of the goods and an amount such that the fixed rate shall not exceed the present class rates without permission of the commission for a period of three years or until such a time as the commission reports to the Governor in Council concerning a reasonable percentage above variable costs to be allowed in fixing maximum rates."

This will, as I said, give the new commission time to study the situation; and it gives the railways the protection of the present existing class rates which are the highest rates at the present time which they are permitted to charge; but the examples we show here indicate that, by applying the 150 per cent rule to variable costs on 30,000 pounds, the maximum would be two or three times greater than the present class rate. Those were the rates which took the continuous increases during the post-war period. We do not think the present class rates are just and reasonable rates—because they were the main part of the rates which took the general increases time after time in that period. In our opinion, they all became distorted in that period. But as a temporary transitional measure we think they could be held as the maximum until some new and proper formula has been worked out.

That is all I wish to say, gentlemen, in respect of the maximum rate formula.

Mr. PICKESGILL: I have to leave before the end of the session so I wondered if I could ask the witness one question for clarification.

He has talked about the present class rates. Does he mean the class rates as reduced by the Freight Rates Reduction Act, or the class rates as fixed by the Board of Transport Commissioners?

Mr. BRAZIER: By the Board of Transport Commissioners.

Mr. PICKERSGILL: Does that mean that the roll back would no longer be in effect.

Mr. BRAZIER: That is right.

Mr. PICKERSGILL: I just thought we ought to know.

Mr. BRAZIER: We think that should give the railways ample protection for their rates.

There are one or two other matters that I would take this opportunity of mentioning to the members of the committee.

One is the question of export grain rates to the Pacific coast. As the committee is undoubtedly well aware the Crownsnest rates to Fort William from the Prairie provinces apply to all shipments of grain to that point, whether the grain is to be used domestically or is to be shipped to the United States or shipped overseas to Europe and other parts of the world. Now, that provision of the statute, of course, never applied to export grain to Vancouver. The export grain rates to Vancouver were established by a special order of the Board of Transport Commissioners on the basis that the then existing rates were unjustly discriminatory against the ports of the Pacific coast. But one exception was put in and that was that it should only cover offshore shipments to Europe, Asia, or other countries, and not to the United States. The result is that we cannot use the export grain rates to Vancouver today to ship to the California markets, or to the Alaska market; whereas, at Fort William they can ship to New York on the rate or any other American market; and has been known for them to ship from Fort William to California because that gives them a cheaper combination of rates than through the Port of Vancouver.

Now, the amendment we ask here is merely that the words "and to countries including Continental United States and Alaska" be added to the provision of the act. In other words, to that extent, as far as the export grain rates are concerned, to put British Columbia ports on a parity with Fort William.

Mr. PICKERSGILL: I wonder could I ask a question at this point? The submission from the British Columbia Federation of Agriculture asked that these rates be revised as grain for domestic use, particularly feed grain. I take it you are not supporting that submission?

Mr. BRAZIER: Mr. Pickersgill, we have given very careful consideration to that and I will say this, that in past years the government of British Columbia has supported applications, on at least two occasions that I know of, before the Board of Transport Commissioners, advocating that reduction in rates. We have considered the present situation and we think that the subsidy provisions now provided for domestic feed grain are quite sufficient and ample; that they are well established in the general policy of Canada, and that they are likely to remain, and there is no need of making any change.

Mr. PICKERSGILL: You are not concerned, should this suggestion of yours be accepted, that Canadian grain would be cheaper in the State of Washington, for feed purposes, than it would be in the lower mainland of British Columbia?

Mr. BRAZIER: As I say, provided the present subsidy arrangements remain, it is quite satisfactory; the subsidy practically covers the difference in cost.

Mr. PICKERSGILL: That is another matter which I thought I ought to bring up.

Mr. BRAZIER: We make a brief reference to branch lines. We, in British Columbia, I think can say in this regard, have been fairly consistent in our position over many years now, that uneconomic services of the railways should be discontinued, or, if they are to be maintained in the national interest then the national treasury should bear the cost of those particular services. We are not



affected by the branch line situation. I look even today with some amazement at the map of the branch lines in Alberta, Saskatchewan and Manitoba, and can readily appreciate why we are not as concerned as they are with the branch line situation.

I have here, and would like, Mr. Chairman, if possible, to pass to the members of the committee—I have not enough for everybody—some maps of the railway situation in the province of British Columbia. As you may know, we have the main line of the CPR through from Field down to Vancouver. We have the Kettle Valley line which runs across the southern part of British Columbia from Lethbridge to Spences Bridge. We have the Canadian National Railway which comes from Banff down the Thompson River to Vancouver, with another main line going across to Prince Rupert; and besides that we have our own Pacific Great Eastern railway which serves the great interior area of British Columbia. By looking at these maps—and I regret that we have not one for each member—you will see what a completely different rail system picture we have in British Columbia from that of the Prairie provinces.

We have included in our brief a reference to the regulation of air carriers. This is something which we have not previously mentioned before any commission at any time, but since British Columbia is the headquarters of Canadian Pacific Airlines and also one which I have some personal interest in, Pacific Western Airlines, after giving it some consideration we thought it was appropriate to suggest in our brief that Air Canada, if it is to enter into this competitive sphere of transportation, should have applied to it the same rules as apply to any other air carrier in Canada. It is for that reason that we have included in the act the brief section in respect of air carriers.

Finally we come to the section with respect to eligible companies, so far as the subsidies are concerned. You will note from the maps which you have before you now that the Pacific Great Eastern railway serves a great part of the province of British Columbia. It is truly part of the national transportation system of Canada. It is joined in the north by the Northern Alberta Railways, operated jointly by the CNR and the CPR; it crosses and feeds traffic at Prince George to the Canadian National Railway; it transfers traffic at Vancouver and North Vancouver to both the CPR and the CNR. It is truly a part of the national picture. We feel, therefore, in British Columbia, that if any subsidy is to be paid, to further the national transportation system of Canada it would be only proper and equitable that provision be made for part of the subsidy to be paid to the Pacific Great Eastern railway in respect of the services which they might render.

The CHAIRMAN: Mr. Brazier are you saying that a rail line that is completely within one province, owned by the province and wholly situated within that province is in the national interest?

Mr. BRAZIER: Yes, absolutely.

The CHAIRMAN: I just wanted to clarify that.

Mr. BRAZIER: I am also going to have passed to members the last annual report of the Pacific Great Eastern railway. I think we have sufficient copies of this for everybody. I would like to read three passages out of the annual report

of the Vice President and General Manager. Unfortunately the pages are not numbered but it is the Vice President and General Manager's report. It says:

The railway is also faced continually with the difficult problem of meeting subsidized tariffs which are paid to more than a dozen railways operating in Canada. The PGE receives no subsidy but the Northern Alberta Railway, for example, received an operating subsidy of \$1,143,000 in the fiscal year of 1964-65. During the past five years federal subsidies paid to the railways have averaged \$90 million per year.

I think you are only too familiar with that figure.

The PGE, in order to meet these subsidized rates is compelled to lower its own rates. It should also be noted that it has been the policy of the PGE to pay the same wage rates as the major railways operating in British Columbia.

Obviously, the solution lies in the granting of operational and construction subsidies by the Federal Government to the Pacific Great Eastern Railway—similar to those paid to other Railways—in order to render the Company competitive in all areas.

I am just going to cite one small example, and I admit that there is possibly not a great deal of traffic, but this is what the situation actually would be in British Columbia. The Great Northern Railway, which is a wholly-owned American railroad, operates from Vancouver to the border at White Rock and it carries traffic between Vancouver and White Rock and receives a subsidy for carrying that traffic when the rates have been rolled back. The PGE operates on the other side of Vancouver and operates from Squamish to Vancouver. It is a Canadian-owned railway, it receives no subsidy but its rates are fixed and they must be in keeping with the rates charged by the national railways. We mention many times that this is a wholly-owned provincial railway. That is so. It is operated primarily for the benefit of the development of British Columbia. The development of British Columbia is just as important to the national economy of Canada as the development of any other area. The mere fact that one comes under the Parliament of Canada and the other under the legislature of the province of British Columbia should be no reason why operating subsidies, where the rates on one railway affect the other, should not be paid to the provincial railway.

May I now read the concluding paragraph of my brief on this subject. While the amount of the subsidy to which the PGE may be entitled will neither make nor break the railway, it is a matter of simple justice in the context of our new national transportation policy that the road be left open for the PGE and any other railway not now under the direct jurisdiction of Parliament to be made eligible for subsidy payments.

Thus, the province of British Columbia proposes that section 469(1)(a), which is the section defining "eligible companies", should be amended by adding to that "and includes any other railway company approved by the Governor in Council for the purposes of this section". Now this still leaves it open to the Governor in Council to refuse the subsidy if he sees fit. But at least the legislation which this committee is considering will not shut off consideration of any proposal that might be made in the future in respect of roll-back subsidies or sub-

sidies paid in respect of any particular type of traffic which the government of Canada decides should be subsidized in the national interest.

Mr. Chairman, if I could just make a few comments with respect to the tables which we have in our brief. I think the quickest and easier way I can do this so that it is in the record, Mr. Chairman, is to read my notes on this.

Table No. 1 is designed to show the average haul per ton by commodity group. The revenue figures are in this table but they are just for the sake of interest.

Table No. 2 shows table No. 1 in more detail. It gives the average haul per ton and also the direction in which it is moved, namely, into the province, out of the province or within the province. It breaks that down.

Table No. 3 shows the provincial participation in rail freight. I draw this to your attention and I am satisfied these figures cannot be disputed. British Columbia has the longest average haul in miles in Canada, 784.6, and pays the highest average revenue per ton \$12.2, to the railways.

Mr. PICKERSGILL: I would like to ask a question for clarification. You say British Columbia does. That is just a phrase. Do you mean, no matter who the shipper is, whether he is a shipper from Toronto or the Wheat Board, or whoever he is, he has a longer haul in British Columbia than anywhere else?

Mr. BRAZIER: That is right. The freight moving into and out of British Columbia bears the highest amount of freight cost anywhere in Canada.

Mr. PICKERSGILL: But it might very well be that the Canadian Wheat Board was the largest—

Mr. BRAZIER: No, in these tables, Mr. Pickersgill, we have excluded statutory grain.

Mr. PICKERSGILL: Oh, I see.

Mr. BRAZIER: Yes. Now, I do not come here to complain about the \$12.2 per ton. If we ship it the furthest then, of course, we are bound to pay the highest rate per ton. We would not expect anybody whose shipments only average 300 miles to pay the same over-all rate as we do for 700 miles. This gives you the picture of British Columbia in relation to all the other provinces of Canada.

Table No. 4 is just a re-arrangement of the percentages shown in Table No. 3. Tables Nos. 5 and 6 deal with the ICC cost. We are able to obtain this from their published figures in relation to what their maximum rates would be if they applied the 150 per cent in the United States. We find that they run all the way from 115 to 125 or 130 per cent over the actual rates charged in the United States for this traffic.

Table No. 6 gives the comparison of the maximum rates calculated on the basis of our formula for various class groups. Table No. 7 relates the actual tonnage moved to the waybill sample taken by the Board of Transport Commissioners. We have attempted to show here what the weight per shipment of the various commodities going into and coming from British Columbia.

The CHAIRMAN: Thank you very much, Mr. Brazier. Before we commence questioning the Chair would like to ask a question dealing with the Pacific Great Eastern. Would the government of British Columbia be willing to sell the PGE to the CN or the CP?



Mr. BRAZIER: Mr. Chairman, all I can say is I have no instructions on the subject.

The CHAIRMAN: I only bring it forward because I would assume they would be treated from a subsidy standpoint the same as the major railroads, Mr. Brazier.

Mr. PICKERSGILL: I would like to say one word about the PGE. We, of course, would not presume to attempt to legislate for the PGE, any more than our legislation affects any other citizen of Canada, because one person is subject to the laws of the land just like any other person, but a railway is not and therefore we would not presume to legislate with respect to it. Nor do we presume to legislate with respect to the Ontario Northland Railway, except that there is one small branch of the Ontario Northland Railway which I am advised crosses the border into Quebec and I gather, therefore, that it is subject to the laws of Canada and gets about \$170 a year subsidy on account of that particular branch. I do not think that PGE would be interested in \$170 a year even if they did get across the Alberta border.

One point I did want to make was that in industry this was a large and rather separate question. These are not very directly related to the bill because I do not think the witness, as a lawyer, would dispute the point that the amendment which he suggests would only create a sentimental presumption because it does not purport to appropriate any money. It does not suggest that any part of the \$110 millions would be paid to PGE, it merely says that the report should be made to the governor-in-council and that he in his wisdom might decide to recommend to parliament that something be paid to it. That, of course, could be done equally well without any reference to the bill. Putting in a reference to the bill would, of course, create, as I say, a sentimental presumption and it would create hopes and expectations, but I would think, of course, that we could not very well make an exception to PGE that we were not prepared to make for any other railway in similar circumstances, such as the Ontario Northland, which is a railway not as long as PGE but in many respects rather similar, at least it appears to be.

I suggest that basically this is a question separate and apart from the bill. If the PGE applied for a federal charter, which I presume, even though it is wholly within the province, it would have a perfect right to do, it would be subject to all the laws made by the parliament of Canada and then, of course, it could be treated exactly like any other railway.

If I might be permitted to make one other observation about the content of the bill, there are some rather impressive points raised in this very well prepared brief. I may say for my part, speaking for myself and the officers of my department, we will look at them with respect and consideration. I do not think that I can go beyond that, Madam Chairman, and perhaps the committee would excuse me.

Mr. BRAZIER: Madam Chairman, just before the minister leaves might I make reference to the Annual Report of the PGE. At about the third last page there is a table showing the value of freight revenue to other railways of Canada. It is an impressive figure. There was \$22 million in 1964. There was \$22 million worth of freight traffic originating on the PGE going to the other railways of Canada.

Mr. PICKERSGILL: I do not think there is any question that it is a very important part of the whole railway system in the country. I would not suggest for a moment that it is not, and perhaps we should try to find some way to put them in funds so they could number their pages!

Mr. BRAZIER: I am going to take that up with the president of the railway when I get back.

Mr. PICKERSGILL: I do not want you to think that I made reference to it first.

Mr. BRAZIER: There is one other comment about the report I might make. You will notice a list of the board of directors on the first page, and it is interesting to note that one of the directors is a former provincial manager of the Canadian National Railways in British Columbia and the other is a former vice president of the Pacific region of the Canadian Pacific Railway. We are drawing on the experience of the two major railways as far as the board of directors is concerned, in any event.

Mr. HORNER (*Acadia*): Mr. Brazier, I found your brief very good but your comments on it left me confused. On the very first page you say that you want the cost of the services as close to the cost of producing the services as possible. Later on in the brief you go on to say that 150 per cent is out, that you do not approve of this. On page 2 you say that Bill No. C-231 seems to have an overwhelming preoccupation with railway regulation or the elimination of railway regulation. On page 3 you suggest that Canada is still moving toward the competitive environment in transportation, and that within the transportation system elements of monopoly still remain entrenched. If the bill is based on the foundation, as you suggest in these first three pages, that it is overwhelmingly concerning itself with railway regulations or the elimination of them, and that a monopolistic condition in railway transportation is still entrenched in Canada, how can you tell us—you do not say it in the brief or, at least, I did not see where you said it in the brief and I thought I read it all—you support the brief and you commend the minister for bringing it forward? I want to know why you support it and why you commend the minister for bringing it forward if it is based on premises with which you do not agree?

Mr. BRAZIER: We did point out, Mr. Horner, the fact that we had this one extremely important qualification to our general endorsement of the bill, and that is the maximum rate control section. There is no doubt about it, we do not think that is satisfactory, and that is the clause that is put in here to control the rate in this monopoly section if the economy would still exist.

Mr. HORNER (*Acadia*): You also disagree with section 317. You suggest on page 5 that up until this time under the present Railway Act the onus is on the railway to apply for a rate increase and they must have the approval of the Board of Transport Commissioners, and you think this is perhaps going too far. This is a very important clause. You suggest there were many regulations and protections built into the present Railway Act for the shippers and for the localities. These are all being done away with. The onus is not being placed on the railways. Yet here are the two most important parts of the bill, as I see them, clause 336 and clause 317, the captive shipper. You disagree with both these parts in the bill, and yet you tell us you agree with the bill and commend the minister for bringing it forward.

Mr. BRAZIER: Mr. Horner, might I say this. We would not be concerned with the withdrawal of the clauses in respect to undue preference and unjust discrimination if we felt the provision in respect to the determination of maximum rates was a proper provision. Once a proper formula is worked out and put into effect, then we do not put the same importance on those clauses in respect to unjust discrimination.

Mr. HORNER (*Acadia*): All right. Let us deal with that particular clause for a minute. You said that if the 150 per cent was not quite 150 per cent this would give some protection under clause 317. Am I right? This is a generalization of what you said. In dealing with that particular part of the bill you said that you are not sure about the 150 per cent, it does not look right, It does not compare very well with 43 per cent, we will give it a three-year trial period.

Mr. BRAZIER: No, no. I will check you there, if I may, Mr. Horner. We are not suggesting that the 150 per cent be given a three-year trial. We say that the present class rates should be maintained, in effect, as the ceiling for the next three years, and eliminate the 150 per cent altogether. The 150 per cent, as far as any figures that we have been able to determine ourselves, would be away over the present class rates. We say the railways should stay to the present class rates in this period until we work out what the proper percentage markup should be.

Mr. HORNER (*Acadia*): In other words, you say delete clause 336 until a three-year period is arrived at, when it can then be done?

Mr. BRAZIER: We do not—

Mr. HORNER (*Acadia*): You do not say it in that many words but that is what in effect you mean.

Mr. BRAZIER: Yes. We say that the fixed rate shall not exceed the present class rate without permission of the transport commission in that period.

Mr. HORNER (*Acadia*): I have a couple of questions on some other subjects but it seems to me, Mr. Brazier, that your brief is based on your opinions of the economic conditions in B.C., and your statement that you agree with the bill seems to have come from some other reasoning which I find it hard to understand because the two do not seem to align with one another.

With respect to the domestic grain movement to Vancouver, do you suggest that you are satisfied if domestic grain moves under present conditions of subsidy? You realize, of course, that the whole aspect of Bill No. C-231 is to do away with subsidies. This is one of the main principles of it, and yet you are saying you are satisfied, leave the domestic grain the way it is, another subsidy is covering it. Do you not think that—

Mr. BRAZIER: Is this not the situation, Mr. Horner, and correct me if I am not right, but the feed grain subsidy is not a subsidy to the railway, it is a subsidy to the farmer. Maybe we are just trying to rationalize—

Mr. HORNER (*Acadia*): This is an interpretation. It is like the butter subsidy. Who gets the benefit? I say the consumer, not the farmer.

Mr. BRAZIER: We do look upon that as a different sort of subsidy than is being dealt with in this bill.

Mr. HORNER (*Acadia*): Oh, I agree it is a different sort of subsidy, but one of the principles of the bill is the general removal of subsidies, and yet you are



saying leave the domestic grain rates as they are, they are covered by a subsidy. Do you not think that if the principle is good in Bill No. C-231? It then is one that should be adhered to in most cases? In other words, if one removes government subsidies maybe this principle would be a good one right along.

Mr. BRAZIER: I am afraid I cannot add anything to what I said, Mr. Horner, on that. You will remember in the past, at a time when it was very doubtful whether the feed grain subsidy would be renewed from year to year—you will remember it was put in originally as a wartime measure on a year to year basis—there was always the fear that next year it would not be payable and the farmers would then be faced with a higher domestic rate. For that reason we were willing at that time to support those who were here, Mr. Creelman and his group, and we went to the Supreme Court of Canada on the case with them.

Mr. HORNER (*Acadia*): One further question with regard to table 3 of your brief. What do you mean by the average revenue? Is this the average revenue of the CNR and CPR combined or is this the total rate including the PGE, or what is it? What does this table mean?

Mr. BRAZIER: This is taken from the board of transport study. This would be a waybill analysis.

Mr. HORNER (*Acadia*): Oh, yes, I understand a waybill analysis.

Mr. BRAZIER: And it would cover all shipments, CNR, CPR and PGE, that went on to those railways.

Mr. HORNER (*Acadia*): Where do you get class rates?

Mr. BRAZIER: We do not show the class rates here.

Mr. HORNER (*Acadia*): But what percentage?

Mr. BRAZIER: It is the actual traffic. I must confess that it is five years since I appeared before the MacPherson Royal Commission on this and a lot of water has gone under the bridge, but as I recall it the actual shipments on class rates in Canada at that time were something like 5 per cent or less.

Mr. HORNER (*Acadia*): Yes, 4.9 per cent, but I wondered what it was for B.C.?

Mr. BRAZIER: Well, the class rates, of course, are the same throughout Canada except for the Atlantic provinces.

Mr. HORNER (*Acadia*): No, I wondered what percentage it was of the revenue.

Mr. BRAZIER: We have not got that today, sir.

The CHAIRMAN: Mr. O'Keefe?

Mr. O'KEEFE: I have one question, Mr. Chairman, and possibly two, and I will leave the detailed questioning for the experts around me.

My question is in connection with the subsidization of the Pacific Great Eastern Railway. Mr. Brazier, do you think it fair that a province like British Columbia, a province for which I have the greatest admiration, which received at the time of Confederation a railway costing some \$25 million, should have its very own Pacific Great Eastern Railway subsidized, at least in part, by taxpayers in Newfoundland, for instance, a province which brought its own railway, amongst many other gifts, to Confederation?

Mr. BRAZIER: All I can say, Mr. O'Keefe, is that I think if you travelled the length of the PGE today and saw the development that is occurring and how that is adding to the national wealth of this country, that you would object to a subsidy such as is paid elsewhere in Canada being paid to that railway to make up for the loss of revenue and the difference in those rates which is indirectly caused by the national rail policy. Now, we are only saying in so far as the national railway policy affects the rates on the PGE.

Mr. O'KEEFE: But do you not agree that one of the main principles of this bill is to try to do away with railway subsidization, or any kind of subsidization, in this area completely? Is that not one of the main principles of the bill which I believe Mr. Horner just suggested?

Mr. BRAZIER: Yes, undoubtedly, and I think if you had the time to go back to the presentation which we made to the MacPherson commission you would find that, if anything, we were the strongest advocates before that commission that subsidies should be eventually done away as far as railway transportation is concerned, and only when the parliament of Canada decided it was in the national interest to maintain a service that was uneconomic to the railway should any subsidy be paid.

Mr. O'KEEFE: Then would you support subsidization of a tunnel across the Straits of Belle Isle and a railway to Churchill Falls in Labrador?

Mr. BRAZIER: I am afraid, Mr. O'Keefe, I am not—

Mr. O'KEEFE: Is it not the same thing?

Mr. BRAZIER: I do not know the circumstances. If the national transportation policy affects the situation there, well I am sure we would support you just as we ask your support in this instance.

Mr. O'KEEFE: Thank you, Mr. Chairman, that is all at the moment.

Mr. GROOS: Mr. Chairman, I do not think there is anybody here from British Columbia who would underestimate the importance to B.C. of the PGE.

I point out to some of the other members of the committee, if they do not know it already, that transportation and communication in British Columbia is our greatest problem, with all the mountains and rivers and lakes going their own way, and so forth. Getting from one part of the province to another is expensive and difficult and I have little doubt in my own mind that the putting into operation of the Pacific Great Eastern Railway has opened up the north in a way that it would not have opened up if it had not been there. I can certainly see why the provincial government would want to retain some control over this. Certainly we can develop northern British Columbia under our own auspices I suspect better than if the railway were in any other hands, but there are a couple of things that worry me about this and I would like to ask you one question. Perhaps later I could ask Dr. Armstrong a question also.

I think I am quoting what you said correctly, that the rates on the PGE must be kept in line with rates on the national railways. There is no act which says that this is the case. Would you tell us what you mean by "must".

Mr. BRAZIER: Mr. Guest is more familiar with the rate situation than I am, Mr. Groos, and he will explain it.

Mr. GUEST: Mr. Chairman, the large proportion of the traffic which originates on the Pacific Great Eastern Railway is transferred to either the Canadian National or the Canadian Pacific. On the Canadian National, these are what they call inter-line rates. If the rate, for example, is \$2 a hundred pounds, the Pacific Great Eastern Railway, as the initiating carrier, gets a division, and we will say the division is 30 cents a hundred pounds. The other railways get \$1.70. Now, the rate on this movement from Williams Lake, British Columbia to Montreal is controlled by the Board of Transport Commissioners. The only control the PGE has over this rate is the amount of division which they can bargain for with the other railways, but the rate itself is completely beyond their control.

Now, if we look at a movement which is wholly on the PGE, and I am thinking of the movement of domestic feed grain from the Peace River district to British Columbia right at the top, Fort St. John, and down to the Fraser Valley, the rate that the PGE charges for this feed grain is determined by the rate which the Canadian National and Canadian Pacific charge from Alberta into the same area. This rate is determined by the Board of Transport Commissioners, or controlled by them. The feed grain rate is an uncompetitive commodity rate and is subject to the 10 per cent roll-back. When the railways roll-back the feed grain rate in British Columbia, the Pacific Great Eastern Railway has to do the same to remain competitive. So, indirectly they are completely subject to what the other railways do and the regulation of the other railways by the Board of Transport Commissioners.

Mr. GROOS: Are you suggesting that if the division of this theoretical \$2 that you were speaking of was not satisfactory to the Pacific Great Eastern Railway, that they could not do anything about it?

Mr. GUEST: No, they cannot do anything about it. They have to bargain for the division with the railway. Actually, as Mr. Martin pointed out, these divisions are standard, which means they use the same process of bargaining with the PGE as some other railways. If the rate was increased to \$3 the PGE would get a greater proportion, or if it is reduced they get a smaller proportion. They have no control over the rate.

Mr. GROOS: But are you not in a very good bargaining position on two counts. First of all, you are producing 22 million tons a year of shipping and, secondly, you do not come under the Board of Transport Commissioners.

Mr. GUEST: I think the point which is made in the brief and the point that was made by Mr. Brazier is that while the Pacific Great Eastern Railway is not directly under the board, it is indirectly because its rates are related to the rates the other railways charge in Canada, Canadian National and Canadian Pacific. From the point of view of division, if their division is 10 per cent of the total rate and if the rate goes up their 10 per cent is bigger; if the rate goes down it is lower. These are standard divisions. They have no control over that. The only control the PGE might have, from the point of view of bargaining, would be if they go to a railway and say, "Now, we will give more to Canadian Pacific than to Canadian National". Of course, these two railways work hand in glove, so they have to go to the Milwaukee Railway, for instance, and say, "maybe we will give you a few more cars", so the Canadian National says, "Okay, we will relent and we will give you another penny." That is about the extent of the pressure that can be applied.



Mr. GROOS: I do not find that argument too convincing. It seems to me that if I had 22 million tons of shipping coming out every year and the possibility of tremendous growth in the future, and I was able to deal with not just two Canadian railways that are in competition with one another but also, in as much as a fair amount of my 22 million tons is going to the other side of the continent, I could bring in American railways, I think I would feel that I was in a very strong bargaining position with those railways and I could strike a better balance on the division of that \$2 you were speaking of.

I wonder if I could ask Dr. Armstrong if he could tell me what the results would be if approval were given to the B.C. recommendations regarding subsidies on the Pacific Great Eastern Railway. How many other private lines of this nature, or lines that do not come under the Board of Transport Commissioners, are involved here, and what sort of mileage is there?

Mr. ARMSTRONG: There are 15 railways not receiving subsidies in Canada and not coming under federal jurisdiction, of which the PGE I would say, is easily the largest. The second largest would possibly be Ontario Northern Railway, but it receives a very small subsidy and only in respect to the branch that crosses the provincial boundary. Therefore, anything that was done in this regard for the PGE, I would say would have to be done for these other railways.

Mr. GROOS: Is the PGE not in a rather unique situation in that it is not only the longest private railway, if we can call it that, but also it provides a very wide diversity of services, servicing not only a whole series of large and growing larger towns and industry the whole time with a very wide diversification, whereas other railways that I have looked into in other parts of Canada have really been put in for a specific purpose, to service a mining operation, or something of this nature, and they just happen to pick up a little other work en route.

Mr. ARMSTRONG: I think that is a good point. On the other hand, most of the other rail systems do feed traffic into their system, but that is certainly not true of the Wabash operation. It would be true of many of these other branch lines, they are branch lines for main railway systems. It seems to me that the contention of counsel that PGE is part of the railway system of Canada is certainly a very valid one. That is why the B.C. government does not take the next step and take the necessary legal procedure to make it part of the operation. They do not seem to have much autonomy now. They are almost forced to follow all the rules and regulations of the federal system without getting any benefit.

Mr. BRAZIER: A good example of how they have tied into the other railways of Canada and how they indirectly must be affected would be at the large Vancouver wharves where all the potash from Saskatchewan is shipped out of the port of Vancouver and is put on the Pacific Great Eastern Railway in North Vancouver. It must be taken over from the other line on to the PGE for shipment out. Now, that is how closely they are tied in. The PGE would not be in any position to argue with Canadian National or Canadian Pacific as to the division of rates there because it is just a very small part of the haul that they have.

Mr. GROOS: I just want to comment, Mr. Chairman, that I would certainly like to find some way where we could assist this railway in providing what I feel is a very essential and growing service. At the moment we seem to be stymied by

the legislation and we do not seem to have any clear way of being able to assist this railway without assisting a lot of others who perhaps are not so deserving.

Mr. MATHER: I want to thank Mr. Brazier and his colleagues and the province of British Columbia for the presentation of a very meaty and well documented brief. I have two or three things I want to say in support of some of the points raised in this brief. In the first case, I certainly support the proposition that there first be a three year study before a formula fixing the maximum rates is put into new legislation. I think that is one contention made in the brief, and it seems quite reasonable to me. We are entering a new field, and I think we should do it with due consideration of all the factors involved, some of which we are not too clear on yet. I think the idea of a study at this time is an excellent one. Secondly, I do commend to our Committee's attention—and I hope this receives your support—British Columbia's appeal in the matter of equalized grain rates regarding export to the United States, that British Columbia should be put on the same basis as other provinces, and not as now discriminated against in that area. With regard to the suggestion that there be a federal financial benefit to British Columbia, or to the PGE, I agree with the Minister when he said that possibly this is not appropriate to the particular legislation we are considering, but I do support the idea that a look be taken at that situation. Certainly, as the witnesses have pointed out, British Columbia PGE operates alongside of other railways which are subsidized, and aside from being tied in, as the witnesses have said, with the general railway transport system of Canada, I think it is clear that there should be consideration given to a railway which has to compete with subsidized lines, without getting the benefit of subsidies itself.

The CHAIRMAN: Have you a question, Mr. Mather?

Mr. MATHER: My question on that point would be, what arguments are raised against that? I have not heard any valid arguments.

The CHAIRMAN: We are not here to answer Mr. Mather; we are here to question the witnesses.

Mr. MATHER: I am asking the witness what the basic arguments are against this?

Mr. BRAZIER: I think the basic argument has always been that you are not under the control of the Board of Transport Commissioners, you will not be under the control of the new board and, therefore, you cannot participate in a subsidy that may be granted and which may be under their control.

British Columbia wishes to maintain control of the PGE, let there be no doubt about that. We feel, from our point of view, that we can develop the province better having it under our control. If certain rates in Canada are to be subsidized, in the national interest, then we say there is no reason in the world the rates for those commodities or movements on the PGE cannot carry the same subsidy as the same movement on any other railway in Canada.

The CHAIRMAN: Are you saying, Mr. Brazier, that the 13 or 14 other railroads, which Dr. Armstrong pointed out, should receive the same consideration?

Mr. BRAZIER: If they are carrying commodities which are being subsidized to the other railways. I might say that I think Dr. Armstrong is quite fair; most of

the railways that he speaks of are industrial railways carrying a particular commodity. We are not asking for anything that we do not suggest you give to the rest of the country. We are representing British Columbia.

The CHAIRMAN: What you are saying is that that railway is of national interest and, therefore, I would say that refers to your opening up the whole field.

Mr. MATHER: Mr. Chairman, just one more point, I would like to revert back for a moment to the part of the brief in which the witnesses urged that British Columbia be treated equally in regard to export of grain rates to grain going to the United States. What is the argument against that with which you have to contend, or is there any?

Mr. BRAZIER: Well, the tariffs published by the railways, and this provision has always been in the tariffs; sometimes, after many, many years, it is difficult to determine how the wording came into the tariff originally. I have before me the Canadian Pacific Railway Company tariff and it says: "For export to Africa, Asia, Australia, Europe, Fiji, Hawaiian Islands, New Zealand, Philippines, South America, West Indies, but not to continental United States or Alaska."

I am afraid I would have to ask Jerry McGeer why that came in, because he was the man responsible for the export grain rates being contained in British Columbia originally, many, many years ago. I cannot tell you why it was left out.

Mr. DEACHMAN: Mr. Chairman, on page 6 of the brief, section IV, the witness begins to develop his argument that the formula in section 336 should be amended, and finally the argument continues to page 13, where a proposal is put for amending section 336. I would like to ask counsel, Dr. Armstrong, to comment on the proposal for amending section 336, which seems to me to come to very much the same thing. I would like to hear the technical points on it which Dr. Armstrong might want to mention.

Dr. ARMSTRONG (*Counsel for the Committee*): I should say that the proposal in the B.C. brief is one which was considered at the time of the MacPherson Royal Commission study; in fact, I would go further and say that it is not terribly different from the proposal in the brief. I think that if you compared class rates with the 150 per cent formula, they would come out more or less the same. If you look at some of the class rates, you might find they are 100 per cent above variable costs; if you look at some of the others, you might find examples where they run up to 300 per cent of variable costs. Overall, I would think that it would not matter that much. Do not forget that we are talking of less than 5 per cent of the total traffic—that is, the maximum rates will not apply to 95 per cent of all shipments. The reason it was decided not to accept a continuation of the class rates as the maximum, was just for the argument presented in the B.C. brief, that is, that the class rates are historical and are not cost oriented. It seemed logical to the people who are thinking and arguing about this problem that it would be better to go to a cost-oriented maximum, than to the maximum which was a result of historical accident and bore very little relationship to costs or really to anything else except a series of long historical accidents.

The other reason we thought the cost-oriented equation of the MacPherson Royal Commission would be better, is that these rates would adjust themselves over time, whereas, if you opt for the class rates, you are in some danger of



getting back into statutory grain rates. But if you leave these as statutory rates, they will not vary with productivity or changes in prices, whereas the formula devised by the MacPherson Royal Commission would adjust over time, and if productivity excels wage costs those things will fall. If costs of railways exceed productivity gains, those things will rise. This will happen automatically without long involved hearings. In other words, the economic forces will adjust those maximum rates over time, and I think it was considered at that time to be an advantage.

Mr. DEACHMAN: Mr. Chairman, Mr. Guest might want to comment on that.

Mr. BRAZIER: Mr. Chairman, if I could just make a comment. I am looking at a table of selected bulk commodity movements, and I am instructed these figures were given to us by the CPR. I will pick out what is probably the most important commodity in British Columbia, and that is lumber. We have a specific commodity rate today on lumber of \$1.52 per 100 pounds, and that would be to Toronto. The present maximum class rate, if shipped on a class rate, would be \$3.08, and that is a little more than double what the specific commodity rate is. We have a general commodity rate of \$1.59, and this depends on the loading. Under the proposed maximum rate, the figure would be \$4.65—that is \$3.08, the present class rate, but with the 150 per cent formula it would be \$4.65. They vary all over the country.

Mr. ARMSTRONG: I was not saying that the MacPherson rates were always higher or always lower; I just say that they vary a good deal. That example is a good case in point. If the railways had been using the maximum, if they had gone to the class rate, and it is perfectly legal for them to do that, the rate would \$3.08. They did not pick that rate. They picked a much lower rate. Why? Well, for competitive reasons. Now, those competitive reasons do not change because we change the maximum formula. In other words, it does not much matter to that movement what the maximum rate is; we are a long, long way from that.

Mr. DEACHMAN: Mr. Chairman, I have one other question to put to Mr. Brazier or Mr. Guest. Mention has been made here a couple of times of the independent position of the PGE and the suggestion was made that it might become a part of the national system. Take the case of a carload of potash moving down the Fraser Valley and across Burrard Inlet to the north shore, destined for the Vancouver wharf. Is there not an interchange between the CNR and the PGE taking place on the north shore.

Mr. BRAZIER: That is correct.

Mr. DEACHMAN: I presume there is an inter-switching charge between those two lines when the car passes from the hands of one railroad to the other. Is that correct?

Mr. BRAZIER: Yes, I think that is the idea, Mr. Deachman.

Mr. DEACHMAN: If, on the other hand, we were dealing with one railroad, that inter-switching charge would not intervene. So, if we were dealing with one line in that area instead of two lines the actual cost of bringing potash to tidewater would be lower by the amount of the inter-switching charge. To how many other commodities does that apply on the north shore of Vancouver harbour and to what extent does it tend to raise the cost of shipping and the

movement of commodities on the north shore compared with the costs on the south shore where one national railroad system operates? Does not the existence of the PGE on the north shore, not having a national identity, mitigate against the development and expansion of the north shore because it creates there an unfavourable rate compared with the south shore.

Mr. BRAZIER: Well, Mr. Deachman, I might say that I do not think the situation is any different there than it would be anywhere else in Canada where there is a movement between two railways, whether it is the PGE and the Canadian National or the Canadian National and the CPR. For instance, if that same carload were going to Port Moody there would be another inter-line line charge in respect of the CPR and the CNR, and whether or not that situation would be rectified by having a terminal railway serving the whole area, I do not know. Even there, you are going to have inter-line changes to the terminal railway.

Mr. DEACHMAN: Would you approve of the idea of a terminal railway so that we could resolve some of the confusion caused by five different railways operating in the lower mainland, for example.

Mr. BRAZIER: I have not studied the situation for some years now. At one time I was an advocate of a terminal railway.

Mr. DEACHMAN: I am very glad to hear that, Mr. Brazier, perhaps we could bring you back into the fold again.

Mr. NOWLAN: My questions have been partly answered by Mr. Deachman's questions. I would also like to amplify on what Dr. Armstrong said, the reason the maximum rates have not been charged for competitive reasons. The Chairman can correct me but, as I understand it, several gentlemen who have appeared before the Committee—also the Minister, who I had hoped would be here—have stated categorically that there is no such thing as a captive shipper. I was wondering if Mr. Brazier could give some indication of who is a captive shipper. It is referred to on page 3 of the brief. You say categorically that some shippers are completely captive to rail. The two presidents of the major railways, and the Minister as well, keep asking in the dark and in the open, come forward, captive shippers, so we can discuss it with you to see how this rate is going to apply but no such creatures come.

The CHAIRMAN: May I bring to your attention that two groups have come forward alleging that they are captive shippers; one was The Coal Operators' Association of Western Canada; another was the coal operators at Fernie, and there is a very unique situation in Labrador.

Mr. SOUTHAM: Mr. Chairman, the Saskatchewan witness verified this too, and without any hesitation. We do have captive shippers in Saskatchewan.

The CHAIRMAN: We asked for specific instances and he really could not give us anything definite. He said there might be one and I believe it was in connection with a mine.

Mr. NOWLAN: I remember there was one mentioned which perhaps could be argumentative. I wonder, because of Mr. Brazier's knowledge in this whole field if he could name anyone who might be captive to rail under the section of the act.

Mr. BRAZIER: Mr. Chairman and Mr. Nowlan, I appreciate that captivity is always a matter of degree. I say quite categorically that a shipper moving lumber from Vancouver to, say, Sudbury, to get it away from the great lakes, is captive to rails. It could be trucked, and there is no doubt about that because there is a highway going through there; but, the commodity is of such a value when delivered at its destination that it cannot stand a particularly high rate and still enter the market.

The CHAIRMAN: There are two modes of rail competition, is there not?

Mr. BRAZIER: Their rates would be the same, and there is no question about that. But that same shipper shipping to Montreal may not be captive.

Mr. NOWLAN: The Minister mentioned this and it carried out what Dr. Armstrong said about even that rate. Dr. Armstrong said that the maximum rate, in the lumber example we used, is not charge, and it was because of competitive reasons. That is why I asked you to indicate where this captive shipper was. I appreciate your illustration and I also, as a new member on the Committee, appreciate your brief in that it is comprehensive, detailed and thought provoking even though one might not agree on all points. It is not bland and general and, certainly, I think has stimulated a lot of interest in the Committee and I hope that the bill carries forth some of your proposals.

On page 13 you mentioned you wanted a three year period to work out a maximum rate. I presume the PGE, along with the other railways, are prepared to exchange their data so that a proper rate can be established.

Mr. BRAZIER: There is no question of that at all. Of course, I cannot speak for the national railway. There seems to be a reluctance on the part of the national railways to disclose costs, although the American railways seem to disclose their costs.

Mr. SOUTHAM: Mr. Chairman, Mr. Nowlan asked the witness the question I had in mind, and that was concerning captive shippers. Members of the Committee have been quite concerned to hear witnesses from both railways state unequivocally that, in their opinion, there was not such a thing in our transportation.

The CHAIRMAN: I do not think they unequivocally said there was not one; I think they said that they had not heard of one.

Mr. SOUTHAM: I would like to ask Mr. Brazier if he would definitely go on the record as saying that he is firmly convinced there are captive shippers in the province of—

Mr. BRAZIER: Yes; in my my mind there is no question.

The CHAIRMAN: Can you name some of the industries, Mr. Brazier?

Mr. BRAZIER: No, I do not think it applies to any particular industry. It applies to particular rates. Certainly nobody would have taken the increases in rates had they not been captive.

The CHAIRMAN: The Committee has been very concerned with this matter and this is why we have asked practically all witnesses if they could give us an indication of a shipper who might judge himself to be a captive shipper under this new bill—

An hon. MEMBER: He has to declare himself to be a captive shipper.



The CHAIRMAN: —and who might say to the commission, “I am a captive shipper.” Could you give us an indication of some shippers in British Columbia who would come under that category?

Mr. BRAZIER: I attempted, Mr. Chairman, in the sample I gave you, of shipments from Vancouver to Sudbury. It is not the shipper but the movement that is captive to the bill.

The CHAIRMAN: We are concerned, under the new bill, with a shipper who has to make application that he is captive because he cannot negotiate a rate. Do we agree there?

Working under that assumption of the bill, if you have the knowledge and information, what shippers in British Columbia would avail themselves of the opportunity going to the commission and saying, we say we are captive shippers, keeping in mind the section of the bill.

Mr. BRAZIER: Certainly if you are going to get a narrow interpretation of the bill, such as you imply—

The CHAIRMAN: I do not imply it, Mr. Brazier; it is the way it is set out in the bill.

Mr. BRAZIER: If that narrow interpretation implies that because I do ship to a place where I can use a truck for some of my commodities, but I have other markets that I can only reach by rail, I cannot come to the Board and say, look, I am a captive shipper so far as that traffic is concerned, then this bill is even worse than we think it is.

The CHAIRMAN: Looking at this map I would say that the shippers on the lines of PGE are really captive shippers. You cannot say no, Mr. Brazier.

Mr. BRAZIER: There are roads there. There is a highway through most of that area.

The CHAIRMAN: Do you mean to tell me that every shipper on the PGE line has an alternative mode of transportation—

Mr. BRAZIER: There would be one area.

The CHAIRMAN: —for their products?

Mr. GUEST: There is no road yet in the area between Pemberton and Lillooet shown on the PGE map.

The CHAIRMAN: Then you mean that if someone wanted to ship from Chetwynd down to southern British Columbia it would be economical for him to truck his commodity?

Mr. BRAZIER: There are regular truck lines operating from Prince George to Vancouver.

The CHAIRMAN: But is it economical for him to truck it?

Mr. BRAZIER: Well, it must be. They are in business.

Mr. SOUTHAM: Carrying on with the question I opened up, I think we had some further good comments from the witness, and I appreciate them. Are you prepared to venture, Mr. Brazier, what particular areas geographically in the province might be more affected than others in respect of captive shippers? I am

thinking that if there were ever a province in Canada that would have a problem so far as captive shippers are concerned, it would be that mountainous area of British Columbia where you do not have the alternative type services.

Mr. BRAZIER: Well, we have a reasonably good highway system in the province, sir, and to the extent shipments of commodities can be moved by truck there is an alternative method of transportation available.

Mr. SOUTHAM: But I am thinking of lumber and ore, and their proximity to the CPR along that route. Do you feel that there is enough competition in the marketplace to provide a rate without being designated as a captive shipper?

Mr. BRAZIER: Well, getting to the commodity being shipped is a factor which would have to be considered in deciding whether or not you are a captive shipper. You had the coal operators of western Canada here. I do not think there is any doubt that the coal production of Fernie, for instance, which is going to Japan today, is captive to rail. It could not be sold if it had to trucked.

Mr. SOUTHAM: Mr. Chairman, I like Mr. Nowlan and several other members, want to congratulate Mr. Brazier and the other witnesses here this morning on their very comprehensive brief.

Judging from your remarks, you have had a wide experience in transportation matters. You referred to having presented a brief to the Turgeon Royal Commission and the MacPherson Royal Commission. You know the controversy that has existed in the minds of the Committee members over the last year or two with respect to the cost accounting techniques of both railroads and their resulting figures. Have you access to expert cost accountants independently, or how do you arrive at some of your conclusions?

Mr. BRAZIER: No, we have not. Any cost figures that we have had, sir, we have had to adopt from the ICC published reports.

Mr. SOUTHAM: We have had a number of discussions with the railroads regarding their variable costs, regression analysis system, and so on. You, I think, would go along with us, then, in suggesting that this transportation commission should have access to the top cost accounting experts that we can provide?

Mr. BRAZIER: Oh, absolutely.

Mr. SOUTHAM: You would support that 100 per cent?

Mr. BRAZIER: Yes.

Mr. SOUTHAM: That is all, Mr. Chairman.

The CHAIRMAN: Mr. Horner?

Mr. HORNER (*Acadia*): Mr. Brazier, you suggested earlier that what you really want the Committee to do with clause 336 is to hold it off for a period of three years, if possible. Am I right in that assumption?

Mr. BRAZIER: Let me put it this way—put a second ceiling on the rates.

Mr. HORNER (*Acadia*): A second ceiling on class rates?

Mr. BRAZIER: Yes.

Mr. HORNER (*Acadia*): If I understand Dr. Armstrong right they are, in most cases, higher.

Mr. BRAZIER: No; they are about the same.

Mr. HORNER (*Acadia*): They average out about the same as the 150 per cent formula.

Mr. BRAZIER: I think so.

Mr. HORNER (*Acadia*): In other words, you suggest that the bill would be better than what we have now, even though it removes a lot of the protection the shippers in localities now have, and provides none for at least a three year period. This is what you are suggesting to this Committee.

Mr. BRAZIER: I would not say "none". I think there would be some protection there, Mr. Horner. Might I put it in this context, that having advocated a cost-oriented system as far back as 1950, we are now pleased to see the possible culmination of our efforts in that respect. We have not had much support from other people with respect to this cost-oriented system. We think that this bill is a step in the right direction if we can protect the shippers in the interim until it can be fully put into effect, and that this is going to give the most efficient transportation system possible to Canada.

Mr. HORNER (*Acadia*): I agree that the cost oriented rates should be the ones the railway should be permitted to set. I agree that all modes of transportation should come under one authority. This idea is fine, but I want to get back to the points on which you and I disagree. You say in your brief that equalization under clause 317 of the old Railway Act is done away with. You mention on page four unjust discrimination to the shipper and you say the locality is done away with. You say that now the onus, instead of being on the railway to prove that a rate increase is justified, is on the shipper to prove that a rate increase is not justified. It is a known fact that clause 336 is the only real protection, other than clause 314, where you have to prove public interest is affected.

Mr. BRAZIER: We are suggesting an amendment to that.

Mr. HORNER (*Acadia*): Yes, I realize that. But you say that clause 336 should be stood, in effect, for three years. Yet you say this committee should approve the passage of this bill, when it is based on premises with which you do not agree, that it is doing away with all the protection to the shippers and localities and is providing no protection in return other than the futuristic pageant of some sort of protection three years from this time.

I have a further question if you do not care to comment on what I already have said.

Mr. BRAZIER: I am afraid I cannot add very much to what I have said.

Mr. HORNER (*Acadia*): What do you mean on page 7 by the sentence, half way through the page, "Bill C-231 gives protection to the shipper who is effectively captive to rail". Could you describe what you mean by "effectively" there?

Mr. BRAZIER: This is what I was trying to explain. You have to give a fairly wide interpretation to what it means.

Mr. HORNER (*Acadia*): And you say this is the widest interpretation?

Mr. BRAZIER: I certainly would be quite willing to argue that it does before the Transport Commission or whatever the appropriate body is.



Mr. HORNER (*Acadia*): Does not the bill say, under clause 336, that when a shipper enters into a written undertaking, as provided in subsection (4), a shipper shall cause to be shipped by rail for a period of one year from the date the fixed rate takes effect. And does he not have to ship all his goods, if he once applies for a rate.

Mr. BRAZIER: It is one year.

Mr. HORNER (*Acadia*): For one year he has to ship one hundred per cent of the goods.

Mr. BRAZIER: Yes.

Mr. HORNER (*Acadia*): And you say this is the widest interpretation?

Mr. BRAZIER: No. But I was referring to when he can make this section applicable to his situation.

Mr. HORNER (*Acadia*): This is where we are having difficulty—and you are too. The committee is having difficulty. Just a little while ago Mr. Southam and the Chairman asked some questions concerning a captive shipment and you said it is difficult to pinpoint a captive shipper, and rather than a particular person it has to be a community moving from point X to point A. So how can you apply to this commission for a fixed rate under section 336 if you do not control all of the commodity moving from X to Y.

Mr. BRAZIER: I gave a rather simple example and I picked it right out of the air. I mentioned lumber moving from Vancouver to Sudbury; you have a fixed rate there, and that particular mill, whenever it is shipping from Vancouver to Sudbury has to ship by rail for a period of one year. In other words it is justifying the finding that he is captive shipper for that particular haul. Now, because that shipper shipped from Vancouver to Westminster some two by fours, which he has lying around the yard, by truck, and a commission ruled that he is therefore, not a captive shipper, I could not agree. I cannot see that interpretation.

Mr. HORNER (*Acadia*): Well, this is the interpretation that was given to the committee. The CPR representatives, when they were before us, stated that all the goods must move—all the goods. Well, I said I have been trying to reach a conclusion as to how section 336 will be interpreted by this commission when it is set up, and everyone agreed that all the goods of the captive shipper must move.

Mr. BRAZIER: But if you just look at section 336, Mr. Horner, it says, a shipper of goods—now, that is (a)—for which, in respect of those goods, there is no alternative. It is not in respect of the shipper that there is no alternative; it is in respect of those goods for which he is applying, there is no alternative.

Mr. HORNER (*Acadia*): Yes. Let us go back to the middle of page 7 of your brief then. What do you mean by effectively captive to rail? Do you mean a shipper of lumber to Sudbury? Let us assume that 80 per cent of his lumber moves to Sudbury, or a point similar to Sudbury, and 20 per cent moves otherwise; would this, in a sense, be what you mean, by effectively captive to rail? Say, some of it just moved into Calgary.

Mr. BRAZIER: This is a jurisprudence and it will have to be developed by the commission. The courts are always faced with the question, what would a reasonable man do under the circumstances. When are you reasonable and when are you unreasonable? I do not know, but I presume the commission would set up certain rules, perhaps 80 per cent.

Mr. HORNER (*Acadia*): The CPR would not accept 80 per cent at all.

Mr. BRAZIER: With due respect for the CPR, they have had to accept some decisions that they did not like.

Mr. HORNER (*Acadia*): Oh yes. I fully realize that, and you would. Would you accept my interpretation of your word "effectively"?

Mr. BRAZIER: I would be very willing to argue before any board or court that 80 per cent, or in that neighbourhood, would be "effectively captive".

Mr. HORNER (*Acadia*): You would feel very confident in arguing that this is what was meant by section 336, that "effectively" means 80 per cent or in that neighbourhood.

Mr. BRAZIER: I would be prepared to argue that.

Mr. HORNER (*Acadia*): And you feel that you could win that argument before a commission?

Mr. BRAZIER: Any time I go to court, I always think there is about a fifty-fifty chance that I will win.

Mr. HORNER (*Acadia*): Mr. Chairman, I would like to ask you a question. Are we going to have the Board of Transport Commissioners before the committee?

The CHAIRMAN: The Board of Transport Commissioners, has never asked to come before the committee, and I see no reason why we should call them.

Mr. HORNER (*Acadia*): I would ask now, Mr. Chairman, that the steering committee actively consider, in my opinion, the fact that we cannot reach a conclusion as to what is meant by clause 336 unless we have experts present to interpret for us present and past legislation. It would be of great assistance to hear these witnesses. I would ask you, Mr. Chairman, to discuss with the steering committee the appearance of the Board of Transport Commissioners so that they could give their versions on the public interest and what affects public interest, because they have been dealing with this for many, many years—particularly with the protections that this new bill removes from railway transportation and the protections that this new bill, supposedly, given shippers and localities. I earnestly request you, Mr. Chairman, to consult and consider this request very, very sincerely because this committee otherwise cannot reach any conclusions. As I have pointed out, the brief reads "effectively captive to rail". Mr. Brazier says he believes he can argue effectively before a commission that 80 per cent would be what section 336 means. We have had the railways say they absolutely would not consider a captive shipper to be 80 per cent; he would have to be 100 per cent. We have had other witnesses say the same thing and, in fact, the Minister of Transport said that, in his opinion, it must be 100 per cent. I believe I could produce that in the evidence if I went back through the record. I want this question earnestly considered because we cannot reach any conclusion

as to what we are asked to pass or approve until we have experts who have been making decisions along the lines I have suggested. We are doing away with some controls and including others, and we want to know exactly what we are doing before this committee passes this bill. I want you to earnestly consider this, Mr. Chairman.

The CHAIRMAN: The chair will consider it. However, I would bring to your attention that the Board of Transport Commissioners is not the body that is going to pass these definitions. Under this bill, the Board of Transport Commissioners, will be absorbed into the commission itself. We do have with us, Dr. Armstrong, who was a special consultant with the MacPherson Royal Commission, and if you have any questions you wish to put to him, you may do so.

Mr. HORNER (*Acadia*): No, no.

The CHAIRMAN: I am just pointing out to you that the chair will consider what you said but, at the same time, Mr. Armstrong has made himself available to the committee, and if you have any problems he can help you resolve I would ask you to put any questions you may have to him.

Mr. HORNER (*Acadia*): You missed the point.

The CHAIRMAN: Mr. Horner, I am sure that he would co-operate.

Mr. SHERMAN: I have a supplementary question, Mr. Chairman. Will the minister be recalled or will he find it possible to return to these hearings today?

The CHAIRMAN: As you know, Mr. Sherman, the minister always has been at the meetings. He is going to British Columbia today and he will be away this week. But, he will be back for further sittings of this committee.

Mr. SHERMAN: He will not be available today for questions arising out of this immediate presentation?

The CHAIRMAN: Not today, but he will be back next week. There is no reason why you should not be able to ask him any questions then arising out of this brief.

Mr. HORNER (*Acadia*): I would like to ask Dr. Armstrong a question. Dr. Armstrong, in your interpretation of section 336, in view of the fact of what the CNR, the CPR and the minister have said with regard to the 100 per cent discussion which I have just had with Mr. Brazier, what do you think could be argued and won with regard to the definition of a captive shipper?

Mr. ARMSTRONG: I think the key words there, Mr. Horner, are "those goods". I would see the captive shipper as being one who moves particular commodities on a point to point movement. By particular commodities I do not mean the general category of lumber, minerals or anything else. I would suggest that the shipper, who wishes to declare himself captive and gets the protection of the act, would say, on this particular rate from here to there, on these commodities shipped under these conditions, I have a rate which is too high, and that the new commission would look at those commodities, under those conditions, and they would interpret that to be "those goods". If it is really captive then there is no alternative; they will ship by rail. I suspect, Mr. Horner, that this problem is probably quite academic, and that if the railways have such an advantage over other means of transportation they will get the business—they will get all the business; they will not get just part of it. When the point to point specific



commodities, coming under a specific tariff charge, is put before the board, it will be that particular commodity and that particular movement of that particular commodity that would be judged captive. That is my reading of shipper of goods in which respect of those goods there is no alternative. I say, obviously, if a man has some point to point shipments that he wants to declare captive and something else is moving by truck, the truck movement is just not included in those commodities. That is my interpretation.

Mr. HORNER (*Acadia*): I will accept your answer and study it. I want to ask you a further question. Dr. Armstrong, you appeared before the MacPherson Royal Commission?

Mr. ARMSTRONG: Yes.

Mr. HORNER (*Acadia*): Would you agree that Commission, in its report, found the railways in a pessimistic atmosphere and did their best, in their recommendations, to try and improve conditions for the railroads?

The CHAIRMAN: It came out in another brief. The question was put by Mr. Horner in respect of another brief.

Mr. HORNER (*Acadia*): And they agreed.

Mr. ARMSTRONG: That the railways were pessimistic? I am not quite sure what you mean.

Mr. HORNER (*Acadia*): That the railways at that time operated under a pessimistic atmosphere, and the MacPherson recommendations, with this thought in mind, were directed to alleviate the financial problems which might have been confronting the railroad at the time and in the future. Would you agree that this was the purport of some of the recommendations in the MacPherson Commission report?

Mr. ARMSTRONG: I do not recall the staff of the MacPherson Commission ever assessing the degree of optimism or pessimism of the railways. I think, if you say the railways appeared before the commission to argue their case, that this is true of everyone who appeared before the commission. I am afraid I do not quite understand.

Mr. HORNER (*Acadia*): I think the Minister of Transport agreed with that generalization of the conditions that existed at that time. If that summation is correct, would you agree then that the MacPherson Commission that recommended the 150 per cent for captive shippers was thinking mainly of the financial position this would leave the railroad in?

Mr. ARMSTRONG: At that time, quite.

Mr. HORNER (*Acadia*): In other words, the 150 per cent is set or accepted in this bill, based on a recommendation or figure used in the MacPherson report, solely to ensure that the railroads could sustain their financial positions.

Mr. O'KEEFE: Surely this private conversation that Mr. Horner is having with the doctor could very easily take place in the doctor's office? We have been listening to Mr. Horner for most of the morning talking about the pessimistic conditions that exist. I think he should consult the doctor in his private office; that is what he is there for.

The CHAIRMAN: Mr. O'Keefe, this was discussed at previous committee hearings. The doctor has answered.

Mr. HORNER (*Acadia*): What I am trying to establish here is where the 150 per cent applies, and why. The witnesses we have before us this morning, Mr. Brazier and Mr. Guest, were in some doubt as to whether 150 per cent formula was really necessary. The 150 per cent formula came from the MacPherson Report, and I am trying to point out, with the assistance of Dr. Armstrong, that that formula arose because of a desire in the MacPherson Report to enhance or improve the pessimistic atmosphere in which the railroads were operating at the time of that report. Am I right in generalizing in that manner?

Mr. ARMSTRONG: No. The 150 per cent came about for very specific reasons. Many formulas were tried. The philosophy of the report was that we, the people of Canada, were trying to get out of subsidizing the railways; therefore, a maximum rate could not be picked which would cost the railways too much. This was a practical consideration.

Mr. HORNER (*Acadia*): In other words, they wanted to ensure to the railroads financial benefits.

The CHAIRMAN: Mr. Horner, would you hold debating this until clause by clause consideration.

If the questioning of the witnesses is finished, I want to thank Mr. Brazier, Mr. Guest, Mr. Martin and Mr. Pederson for appearing before us this morning and for presenting us with their brief.

Mr. BRAZIER: Thank you very much.

The CHAIRMAN: Before we adjourn I want to bring to the attention of the committee there will be no meeting tomorrow, and we will not be meeting again today. We will meet again at 9.30 Thursday morning to hear the Mining Association of Canada, the Windsor Chamber of Commerce and perhaps, as I said, the Maritime Transport Commission. We do not have confirmation of that yet.

The committee will adjourn.

## APPENDIX A-23

Submission of  
The Province of British Columbia to  
THE HOUSE OF COMMONS STANDING COMMITTEE ON  
TRANSPORT AND COMMUNICATIONS

with respect to Bill C-231

(By C. W. Brazier, Q.C.)

### I. INTRODUCTION

Nearly seven years have passed since the Royal Commission on Transportation began its deliberations and five years since the Commission published its first report. Hence we have had adequate time not only to digest the Report of the Royal Commission but to draw certain conclusions as to the validity or otherwise of the principal recommendations contained in the Report. Similarly, in considering carefully Bill C-120 and its amended successor, Bill C-231, we have had the opportunity of studying how the authors of the proposed legislation have interpreted the recommendations of the Royal Commission on Transportation. With some important reservations the Province of British Columbia agrees with the Report of the Royal Commission on Transportation and the formulation of its recommendations in Bill C-231.

#### (i) *British Columbia and the Royal Commission*

The Province of British Columbia played an active role in the deliberations of the Royal Commission on Transportation. Very briefly, the position of the Province of British Columbia as placed before the MacPherson Commission recognized the growth of competition in the transportation industry and the long-term benefits which could accrue to the entire Canadian economy as a result of the interaction of competitive forces. We suggested that transportation rates should reflect as closely as possible the costs of producing the service. Hence, we advocated a cost-oriented rate structure since recommended in part by the Report of the Royal Commission.

The Province of British Columbia was very critical of the cross-subsidization of certain uneconomic services which the railways were compelled to carry on in the public interest. We advocated that any such service should not be a burden on the general freight shipper. We urged that the railways be allowed either to discontinue unprofitable services or that the national treasury pay a subsidy compensating the railways for any loss that might accrue. The Royal Commission agreed with this recommendation and it is now, in large part, written into the proposed legislation.

The terms of reference of the Royal Commission on Transportation were very wide but specifically it was instructed to enquire into "*The inequities in the*



*freight rate structure, their incidence upon the various regions of Canada and the legislative and other changes that can and should be made in furtherance of national economic policy, to remove or alleviate such inequities."*

We must conclude that the recommendations of the Royal Commission in regard to inequities in the freight rate structure are not reflected in Bill C-231. The authors of the Bill seem to have an overwhelming preoccupation with railway regulation or the elimination of railway regulation.

It is a well known fact that in 1959 the railways did not request the government of the day to appoint a Royal Commission. On the contrary it was the shippers and their representatives who demanded and got the appointment of a Royal Commission. The Report of the Royal Commission on Transportation took into consideration and made provisions for, shippers who were making unjust contributions to railway overheads when they recommended a cost-based maximum rate formula "*to place limits upon the share of these fixed costs the captive shipper must carry*".<sup>1</sup> Rather than modifying inequities, the formula proposed in Section 336 of Bill C-231 perpetuates the inequities on a still higher level. We urge the Committee to bring more balance to the Bill on behalf of the public interest.

## II. NATIONAL TRANSPORTATION POLICY

British Columbia has long believed that national transportation policy should be such as to speed the economic development and regional well being of all Canada. We have always been concerned that, as shippers of raw materials and semi-finished products over long distances,<sup>2</sup> we must achieve the rapid development of the most economic and technically efficient railway system. We are also convinced that only in increasing competition between the various modes of transportation will the inherent economies in railway transportation be developed. Similarly other transportation media will find their true place in the economy offering the shipper the best possible service at the lowest cost consistent with such service. Thus British Columbia agrees in principle with the Section I of the Bill dealing with National Transportation policy and we feel that Bill C-231 provides the legislative framework for the implementation of the new national transportation policy. Having said this, we must advance an extremely important qualification to our general endorsement of the Bill.

Canada is still moving towards a competitive environment in transportation. Within the transportation system elements of monopoly remain entrenched. Our geography and level of industrial development inhibit the growth of all-pervasive competition. We are in a transitional period and unfortunately, as yet, Bill C-231 does not give sufficient recognition to this fact. To be concrete, some shippers of certain commodities have a much less competitive environment than others.

Some shippers are completely "captive" to rail, to others rail is the only "effective and competitive service". Some shippers by virtue of volume and variety of commodities can bargain successfully with the railways for rates on that part of their shipments captive to rail. Other smaller shippers are protected by commodity rates or agreed charges negotiated by more powerful shippers. All

<sup>1</sup> Report of the Royal Commission on Transportation, Vol. II, Ottawa: Queen's Printer, 1961, p. 101.

<sup>2</sup> See Tables I, II, III and IV in Appendix.

shippers when negotiating rates have a well-understood maximum rate, the class rate, which in the case of heavy loading commodities is well below the proposed maximum rate formula.

It has been pointed out to the Committee by the President of the CPR that 110 shippers give the Canadian Pacific 70 per cent of its freight traffic. The remaining 30 per cent comprise several hundred thousand small shippers. This is the group which requires regulatory protection during the transitional period to the more competitive environment envisioned for our transportation industry and towards which our national transportation policy is correctly oriented.

### III. PROTECTION FOR SHIPPERS UNDER THE PRESENT AND PROPOSED REGULATIONS

British Columbia considers that it is most important for the Committee and parliament to appreciate what is being taken away from shippers under the proposed Bill C-231. The railways in their testimony completely avoided discussing this aspect of the legislation as did the Minister of Transport in his introductory remarks. While we agree with the general objectives of the new transportation policy we reiterate that the new legislation removes all the statutory protection—which the shipping public have enjoyed—against unjust discrimination and in the regulation of freight rates.

#### (i) *Unjust Discrimination*

Under the present Railway Act, shippers and localities are protected by a number of sections against unjust discrimination and undue preference by the railways. Section 317, for example, prohibits the railways from charging one shipper more than another if their goods are moved from one point to another under substantially similar conditions. The Board of Transport Commissioners, of course, has the authority to declare a locality competitive, enabling the railway to charge a lower rate to meet competition even though the rate violates the principle of equality. Under the present Act (in Section 322) if a shipper or a locality feel they have been discriminated against and complain to the Board, the onus is on the railways to prove that they have not discriminated unjustly. These and other sections of the Act will be repealed under Bill C-231.

The protection offered to the shipper by the present section of the Railway Act dealing with unjust discrimination and undue preference depends to a large degree on the Board of Transport Commissioners who must assess the shippers' complaints. The new Bill C-231 removes all statutory protection now afforded to shippers and localities that ensures they be charged equal tolls under similar conditions. In its place the new Section 317 cited in Bill C-231 places the onus on a person to prove to the Commission a *prima facie* case in the public interest before he is allowed even to appeal to the Commission.

We think the Committee is well aware of the difficulties involved in one shipper proving a case in the *public interest*, therefore in order to redress the serious imbalance the Province of British Columbia recommends strongly that the proposed Section 317(1) of Bill C—231 be amended by adding the words "or his business" after the phrase "... may prejudicially affect the public interest."

## IV. MAXIMUM RATES

(i) *MacPherson Commission Recommendations*

Under present legislation the Class Rates are the maximum rates in Canada. They apply equally in all regions except the Atlantic provinces and are proportionately higher as the distance increases. The class rates and certain non-competitive commodity rates have taken all the post-war increases in freight rates, and consequently are heavily influenced by distortions of railway costs due to cross-subsidization by freight shippers of passenger services, uneconomic branch lines, the Crowsnest Pass rates, and other services in the public interest.

Under no circumstances could the class rates be considered just and reasonable even in the context of Bill C-231. The Province of British Columbia does not feel the class rates are just and reasonable. The MacPherson Royal Commission, however, as a point of departure, adjudged all existing rates just and reasonable. The protection the shipper would get eventually was to flow from a cost based maximum rate which would ensure he paid no more than a reasonable contribution to railway overhead costs. Bill C-231 has departed from this concept of a cost-oriented maximum rate recommended by the MacPherson Royal Commission.

If perfect competition was present throughout the transportation industries the regulation of rates and fares would not be necessary as exploitation would not be possible and predatory pricing could not occur if losses could not be cross-subsidized from other sources. At the present time there is certainly a large amount of traffic which enjoys the possibility of two or more forms of transportation into its market and hence there is *little need for maximum* rate control. However there is still some traffic for which there is transportation by only one mode, either because of the nature of the commodity or because the costs of any alternative means of transport would be so far above the selling price of the commodity that it could not be utilized effectively. Long haul traffic and bulk commodities are examples. By and large, it is this non-competitive type of shipper that has had to bear the burden of successive horizontal percentage increases in post war years, a situation which was the primary reason for the constitution of the Royal Commission on Transportation.

The Province of British Columbia agrees that there should be effective maximum rate control to protect shippers who can show that no economically effective means of transportation other than the railway is available to him. British Columbia does not believe that the proposals contained in Bill C-231 give protection to the shipper who is effectively captive to rail.

The Commission may, by the proposed Section 336 (2),

"Fix a rate equal to the variable cost of the carriage of the goods, and an amount equal to one hundred and fifty per cent of the variable cost."

The reasoning for such a maximum of variable cost plus 150 per cent is given in the Royal Commission Report where it is suggested that maximum rates should be "based on the variable costs of the particular commodity movement plus and addition above variable cost such as will be an equitable share of railway fixed costs.<sup>3</sup> Thus,

<sup>3</sup> *Report of the Royal Commission on Transportation*, Volume II, Ottawa: Queen's Printer, 1961, p. 99.



"The long-haul shipper, captive to rails, will know that the maximum rate reflects line-haul and terminal costs without undue distortion."<sup>4</sup>

By variable costs is meant,

"the long-run variable cost determined for the particular movement involved."<sup>5</sup>

The function of such a maximum is "to place limits upon the share of these fixed costs the captive shipper must carry. The weight of the burden of inallocatable overhead determines the justice and reasonableness of the rate."<sup>6</sup>

The problem here is to determine the additional amount which must be added to the variable costs to assure that a shipper makes a reasonable contribution to overhead costs. The formula proposed by the Royal Commission of the variable cost of movement based on 30,000 lbs. minimum times 150 per cent was completely unacceptable. We knew that the reasoning of the Royal Commission was faulty when it said:

"The cost structure of the railways, with their relatively high proportion of fixed to variable costs must be reflected in maximum rates. The equitable contribution allowed by maximum rates should not be less than 150 per cent of long-run variable costs. . . This we conclude is a reasonable share of the burden of fixed costs which the traffic, designated captive . . . shall bear."<sup>7</sup>

We are now aware that the variable costs of the railways average about 70 per cent of total costs since Dr. Bandeen's testimony before the Committee on October 13th. Assuming that total costs are 100 and average variable costs are 70 per cent of 100 or 70, then 43 per cent be added to average variable costs to cover the total costs. Obviously this is a long way from 150 per cent.

The Province of British Columbia and other provinces made representations to the Minister of Transport urging that the maximum rate formula be further modified in the interests of protecting the captive shipper because we considered that the 150 per cent standard of Bill C-120 was too high. Our representations in this regard had little or no impact.

Section 334, Subsection (1) of the Bill specifies that, "*Except as otherwise provided by this Act all freight rates shall be compensatory.*" Subsection (2) of the same section states that: "A freight rate shall be deemed to be compensatory when it exceeds the variable cost of the movement of the traffic concerned as determined by the Commission". Thus, it is conceivable that one shipper would pay a rate that equals variable cost plus one per cent of variable cost (this would be "compensatory") while the captive shipper would pay a rate equal to variable cost plus 150 per cent of variable cost at 30,000 lbs. This is the reason why some shippers will have to pay a higher proportion of fixed costs than others.

## (ii) *Applications of Proposed Maximum Rate Formula*

At this time we wish to illustrate, using published American cost data, the absurdity of the maximum rate formula as proposed in Bill C-231.

<sup>4</sup> *Report of the Royal Commission on Transportation, Volume II, Ottawa: Queen's Printer, 1961, p. 103.*

<sup>5</sup> *Ibid.*, p. 100.

<sup>6</sup> *Ibid.*, pp. 101-2.

<sup>7</sup> *Ibid.*, p. 102.

The 1964 one per cent Waybill Analysis shows five carloads of "manufactures and miscellaneous" moving from British Columbia to Manitoba. The average distance involved is 1,488 car miles. The average weight per car is 26.3 tons. Taking this actual movement via Canadian lines, and using I.C.C. cost scales to develop fully distributed costs; i.e., average variable costs plus average fixed costs, the relationship between average fixed costs and average variable costs may be ascertained. Bill C-231, Section 336, implies that fixed costs are 150 per cent of variable costs. Table V demonstrates that average fixed costs range from 24 to 35 per cent of average variable costs. The figures in this Table relate to a General Service Boxcar.

TABLE V  
GENERAL SERVICE BOXCAR COSTS SHOWN IN CENTS  
PER HUNDREDWEIGHT

	Line Haul Average Variable Expense	Terminal Average Variable Expense	Line Haul Average Fixed	Terminal Average Fixed	Percent Total Average Fixed to Total Aver- age Variable
REGION II (Official Territory Exclud- ing New England Region)	64.07	12.85	15.71	2.42	24
REGION IV (Southern Region) .....	54.92	8.87	19.67	1.84	34
REGION VI (Mountain Pacific Territory)	60.24	12.93	23.27	2.60	35
REGION VIII (Western District) .....	56.10	13.42	21.10	2.89	34

SOURCE: Interstate Commerce Commission, Rail Carload Unit Costs by Territories for the Year 1964.

The I.C.C. cost scales used in the calculations may be criticized on the basis that they apply to American lines only but such a criticism will not, however, explain a difference ranging from 115 per cent to 126 per cent when compared to the proposed formula. The conclusion of this exercise is supported by Dr. Bandeen's statement that average fixed costs are about 43 per cent of average variable costs. Is it fair, then, that the captive shipper should contribute 150%?

In Table VI, the I.C.C. Cost Scales are used to develop maximum rates on the basis of the formula proposed in Bill C-231. I.C.C. cost information for Region VIII has been used. This region consists of the western two-thirds of the United States, the boundary approximating a line drawn south from the tip of Lake Michigan. This territory is similar to the territory through which British Columbia shippers must go, involving a coastal range of mountains and a prairie region.

Bill C-231 specifies that costs are to be based upon a 30,000 pound shipment and that the maximum rate is to be determined on the basis of V.C. at 30,000 pounds plus an allowance for fixed costs equal to 150% of V.C. at 30,000 pounds.

An incentive allowance for heavier shipments is provided for in the Bill, although this is not significant. This allowance amounts to a reduction of one-half of the difference between Variable Costs at 30,000 and Variable Costs at increments of 20,000 lbs. above 30,000 pounds (i.e., 50,000, 70,000 et cetera).

For a shipment of 70,000 pounds, the maximum rate formula becomes: V.C. 30,000 plus 150% V.C. 30,000— $\frac{1}{2}$ (V.C. 30,000—V.C. 70,000).

*Sample Calculation:*

$$\begin{aligned}
 \text{Distance} &= 2,000 \text{ miles} \\
 \text{Weight} &= 70,000 \text{ pounds} \\
 \text{V.C. 30,000} &= 140.0 \\
 \text{V.C. 70,000} &= 71.9 \\
 \text{Maximum Rate} &= 140.0 + 210.0 - \frac{1}{2} (140.0 - 71.9) \\
 &= 140.0 + 210.0 - \frac{1}{2} (68.2) \\
 &= 315.9 \text{ cents per cwt.}
 \end{aligned}$$

This is the figure shown in Table VI for a shipment of 70,000 pounds over a distance of 2,000 miles.

Table VI also presents a comparison between the proposed maximum rate, developed from I.C.C. average variable costs, and I.C.C. fully distributed costs, for various weights and distances. Taking once again a 70,000 pound shipment over 2,000 miles, the proposed maximum rate is 315.9 while the I.C.C. fully distributed costs are only 103.1. The proposed maximum rate is three times greater than the fully distributed I.C.C. costs.

Table VII illustrates the unrealistic nature of basing the cost of a movement on a load of 30,000 pounds (15 tons). The commodities listed on a weight basis are the 23 major commodities shipped from British Columbia. They comprise 87 per cent of total carload and less-than-carload freight originated or loaded at stations in British Columbia. The Waybill Analysis has been used to ascertain the carload weight of these shipments. This weight ranges from 77.6 tons for copper ore and concentrates to 20.4 tons for manufactures and miscellaneous, N.O.S. The average carload weight is 41.1 tons. Lumber, shingles and laths average out at 33.9 tons per carload; woodpulp, 52.0 tons per carload; bituminous coal, 68.6 tons per carload. These figures bear little resemblance to the proposed base of 15 tons.

(iii) *Transitional Step in the Establishment of a Realistic Formula for Maximum Rate Control*

We have pointed out to the Committee the absurdity of the proposed maximum rate control formula. The only argument anyone has advanced in its favour is that a mere handful of people will be affected and thus the absurdity will be minimized. The Province of British Columbia is confident that a cost-oriented maximum rate formula can be developed reflecting the actual loading characteristics of a commodity on one hand and ensuring that any commodity movement pays only a just and equitable proportion of the overhead costs of the railways on the other hand.

We suggest that this formula can be worked out during the three-year period suggested for the examination of the cost of the statutory grain rates. The new formula must be expressed in terms of the variable cost of movement of a



carload plus a percentage mark-up. The formula must encourage efficiency and capital investment in order to reduce variable costs—hence rates—while enabling the railways to earn a reasonable return on their investment. On the other hand, there must be an incentive built into the formula to induce shippers to take maximum advantage of the heavy loading characteristics of present and proposed rail equipment.

We propose the following amendment to Section 336(2)

“... and the Commission may after such investigation as it deems necessary fix a rate equal to the variable cost of carriage of the goods and an amount *such that the fixed rate shall not exceed the present class rates without permission of the Commission for a period of three years or until such time as the Commission reports to the Governor-in-Council concerning a reasonable percentage above variable costs to be allowed in fixing maximum rates.*”

We believe such an amendment is practical, sensible and should ease the current impasse on maximum rates and falls in line with the Royal Commission's recommendations in regard to the transitional period, that “existing rate relationships must be adjustable over time”; that “present revenues of carriers must not be significantly affected”; and that “...those shippers who have received some measure of rate protection either by the old system of maximum rate control or by competition must continue to receive at least the same measure of protection during the period of adjustment”.<sup>8</sup>

#### V. EXPORT GRAIN RATES TO THE PACIFIC COAST

Rates on grain to Fort William are fixed at the statutory level whether or not the grain is eventually intended for domestic consumption, overseas export, or export to the United States. As a result, no additional charges are levied against the Crowsnest rate if grain is shipped by rail to U.S. destinations. On the Pacific Coast, however, a merchant wishing to export from British Columbia ports to continental United States points or Alaska must first pay the difference between the export and the domestic rate to Vancouver which amounts on average to between \$9 and \$10 per ton. This extra railway charge prohibits any chance of exporting in quantity to the United States from British Columbia and is held to be highly discriminatory. While the eastbound tariffs apply export rates to *all* grain moving to Fort William, irrespective of the ultimate destination, the westbound tariffs exclude grain moving to Vancouver for eventual delivery to the continental United States and Alaska. The consequence is that while grain moves from Fort William to the United States, practically none moves from British Columbia. In fact, grain has been shipped from Fort William to California, a market which would seem to be a logical one for British Columbia exporters. Thus, the unequal application of the export rates results in a gross distortion of traffic flow.

British Columbia seeks an end to the discrimination in export grain freight rates as between Fort William and Vancouver and believes that export grain rates should be on the same basis for both places.

<sup>8</sup> Report of the Royal Commission on Transportation, Volume II, Ottawa: Queen's Printer, 1961, p. 109.

Therefore we recommend that Section 328(2) be amended as follows:

328(2) "Rates on grain and flour moving from any point on any line of railway west of Fort William to Vancouver or Prince Rupert for export to all countries including continental United States and Alaska, over any line of railway, etc. . ."

## VI BRANCH LINES

The Province of British Columbia is also concerned over the sections in the proposed legislation that deal with Branch Lines. This Province does not have the same amount of interest in these sections of Bill C-231 as the Prairie Provinces, but it does have sufficient interest to raise a problem with the Committee.

Across the southern portion of the Province the Canadian Pacific operates its Kettle Valley Line—stretching from Lethbridge, Alberta, to Spences Bridge, British Columbia. This is the only major rail route to serve this area. The concern of the Province in this instance is not whether or not this line, or portions of it, will be classified as a Branch Line, but rather the concern is that when this act is passed, as it is currently proposed, and the line or any portion of it, is deemed to be a Branch Line and uneconomic, the Commission may direct the railway to discontinue operations over the particular line. If this occurs before a cost-oriented rate structure is in full effect, then freight rates based on short-line route mileages may be increased. If the cost-based rate structure were in effect, then the rate would be constructed on the basis of the lowest cost route. This might even result in a rate reduction.

The Province is still in agreement with the principle of elimination of uneconomic service, but this rationalization should not be carried out and then adversely affect other shippers. As a result we propose that no rate should be adversely affected by the elimination of any Branch Line.

## VII. REGULATION OF AIR CARRIERS

The Canadian Transportation Commission will be charged with the administration of the Aeronautics Act presently the responsibility of the Air Transport Board. The Province of British Columbia believes that no serious regulation of air carriers in Canada can be accomplished unless all carriers are regulated on the same basis. At present Air Canada is placed in a preferred position in relationship to other carriers by Section 15(7) of the Aeronautics Act which makes mandatory the granting of a licence to Air Canada on application while in Section 15(8) the Board *may* issue a licence to any other carrier if, "in the opinion of the Board, public convenience and necessity so requires".

If competition is to be the watchword in the transportation industries the above mentioned privileged violation of competition should be corrected. Thus we recommend that Air Canada be regulated on exactly the same basis as all other domestic airlines.

## VII. ELIGIBLE COMPANIES

Section 469 defines eligible companies as railway companies "under the jurisdiction of Parliament that are subject to Order No. 93600 of the Board of Transport Commissioners for Canada dated November 17th, 1958" (which order-

ed the last general increase in freight rates of 17 per cent) and such companies that rolled back class and non-competitive commodity rates from the 17 per cent level to the present 8 per cent level. This definition eliminates from payments of the "general subsidy" such important railways as the provincially owned and controlled Pacific Great Eastern Railway.

The Province of British Columbia has always maintained that it has been discriminated against in this regard and must state once more that because Canada's third largest railway, the Pacific Great Eastern, is prohibited from receiving subsidy payments under the definition in proposed Section 469, continues to be discriminated against.

We are requesting the Committee to remedy this injustice by amending Section 469(1)(a) so that the Pacific Great Eastern Railway becomes eligible for payments from the "general subsidy" and such payments that may be authorized by the Canadian Transportation Commission for services carried on in the public interest.

While the Pacific Great Eastern Railway is owned and controlled by the Province of British Columbia, the rates that it charges for 99 per cent of its freight and passenger service are determined by national regulatory policy. Class and mileage commodity rates on the PGE are patterned exactly as those on the Canadian National and Canadian Pacific Railways. For example, the rate on sulphur from Fort St. John to Vancouver is exactly the same as the rate from Calgary to Vancouver. The domestic grain rates are on exactly the same mileage basis on the PGE as on the CPR or the CNR but the latter railways get the "roll back" subsidy—the PGE gets nothing.

Commodity after commodity gets the same treatment yet the wages on the PGE follow the national pattern even when wage levels are imposed by Parliament.

Forty-six per cent of all traffic originating on the PGE is diverted to other railways and 67.4 per cent of the interline traffic goes to other Canadian railways. Thus the PGE contributes millions of dollars worth of traffic to the CNR and the CPR every year but has absolutely no control over the rate levels of such traffic because it is governed by the federal regulatory authority. All rates on the PGE are compensatory except passenger fares which, of course, are the same as those approved for the CNR and the CPR by the Board of Transport Commissioners. All reductions of the passenger fares imposed in the public interest such as National Defence personnel, R.C.M.P., Indians, Ministers of the Gospel, Members of Parliament and the Senate, etc. are in force on the Pacific Great Eastern Railway. In short, the PGE, because of its integration into the national railway system, carries out all services imposed in the public interest by Parliament and the regulatory authorities but does not receive a penny directly as a subsidy. The Government and people of British Columbia consider this the worst type of discrimination. We consider that it is high time this inequitable situation is remedied.

The time honoured argument advanced by federal officials is simply that the PGE is not "under the jurisdiction of Parliament" thus not eligible for subsidy payments. It appears that the same officials want to perpetuate and enshrine this qualification in Bill C-231. Why does the Province of British Columbia wish to maintain control of the Pacific Great Eastern Railway?



The PGE is one of the most important tools for the development of British Columbia's growing industry and vast natural resources. The development of our forest and mineral resources is contributing and will continue to contribute untold wealth to Canada. It is clearly in the national interest to develop our resources as quickly as possible and this development is the responsibility of the provincial governments. The PGE has and will continue to spark industrial development in British Columbia. Within the last two years two new pulp mills have been built and are now producing on the PGE. A third will be in production in 1967, a fourth in 1969 and a fifth and sixth by 1974. Development of the pulp and paper industry has led to extensive growth of the chemical industry on the PGE. Sulphur and propane are moving in quantity from the Peace River District for export because of the PGE. The PGE is a developmental railway stimulating regional industrial expansion.

The definition of an eligible railway in Bill C-231 creates an anomaly. On one hand a wholly American owned railway operating in Canada can obtain part of the general subsidy while a wholly Canadian owned railway 795 miles long and generating millions of dollars worth of business is barred from federal assistance.

Yet the very basis for the subsidy—the "roll back" in rates, the increase in railway costs and the freight rates freeze is just as effectively a fact on the PGE as it is on the Canadian National or the Canadian Pacific Railways. The impact of regulatory decisions is just as effective on the PGE as on all other railways in Canada because the PGE is an integral part of the Canadian railway system. It is clear the PGE will have to change its rate making practices to coincide with the new federal legislation and regulation. The conclusion is inescapable, Ottawa indirectly regulates the Pacific Great Eastern Railway.

While the amount of subsidy to which the PGE may be entitled will neither "made nor break" the railway, it is a matter of simple justice in the context of our new national transportation policy that the road be left open for the PGE, and any other railway not now under the direct jurisdiction of Parliament to be made eligible for subsidy payments—thus the Province of British Columbia proposes that Section 469(1)(a) be amended by adding the following, "...and includes any other railway company approved by the Governor-in-Council for the purposes of this section."

TABLE I  
ESTIMATED TONNAGE, FREIGHT REVENUE AND AVERAGE LENGTH OF HAUL FOR CARLOAD  
SHIPMENTS ORIGINATING OR TERMINATING IN BRITISH COLUMBIA  
1964

Commodity Group	Tonnage (Tons)	Revenue (Dollars)	Ton Miles	Average Haul Per Ton (Miles)
Agricultural Products.....	71,199.0	393,739	66,240,795	930.4
(Statutory Grain Movements Excluded).....	3,398.5	78,497	2,947,852	867.4
Animals and Animal Products.....	1,073.4	27,767	1,193,664	1,112.0
Mine Products.....	19,085.3	113,226	11,088,089	581.0
Forest Products.....	29,810.1	327,157	24,519,891	822.5
Manufactures and Miscellaneous.....	32,405.9	570,759	37,216,039	1,148.4
Total.....	153,573.7	1,432,648	140,258,478	913.3
(Statutory Grain Movements Excluded).....	85,773.2	1,117,406	76,965,535	897.3

SOURCE: TABLE II.

TABLE II  
ESTIMATED TONNAGE, FREIGHT REVENUE, AND AVERAGE LENGTH OF HAUL FOR CARLOAD SHIPMENTS  
ORIGINATING OR TERMINATING IN BRITISH COLUMBIA  
1964

Commodity Group	Tonnage (Tons)			Revenue (Dollars)			Ton Miles			Average Haul per Ton (Miles)		
	Into	Out	Within	Into	Out	Within	Into	Out	Within	Into	Out	Within
Agricultural Products... (Statutory Grain Move- ments Excluded).....	69,508.9	775.8	914.3	344,067	41,981	7,691	64,811,692	989,454	439,649	932.4	1,275.4	480.9
Animals and Animal Products.....	1,901.2	713.5	783.8	29,966	41,508	7,023	1,746,454	881,862	319,536	918.6	1,236.0	40.8
Mine Products.....	684.7	241.7	147.0	16,562	8,955	2,250	571,961	559,598	62,105	835.3	2,315.3	422.5
Forest Products.....	8,628.0	628.9	9,828.4	61,117	2,767	49,342	6,578,874	154,709	4,354,566	762.5	246.0	44.3
Manufactures and Miscel- laneous.....	35.3	10,553.6	19,221.2	1,137	287,025	38,995	104,029	22,292,951	2,122,911	2,946.9	2,112.4	110.4
Total.....	14,410.7	11,630.4	6,364.8	364,250	153,021	53,488	21,712,736	13,326,795	2,176,508	1,506.7	1,145.9	342.0
(Statutory Grain Move- ments Excluded).....	93,267.6	23,830.4	36,475.7	787,133	493,749	151,766	93,779,292	37,323,507	9,155,679	1,005.5	1,566.2	251.0
	25,659.9	23,768.1	36,345.2	493,032	493,276	151,098	30,714,054	37,215,915	9,035,566	1,197.0	1,565.8	248.6

SOURCE: Carload All-Rail Traffic of Major Commodity Groups Between the Provinces by Types of Rates, 1964 Waybill Sample, B.O.T.C.

TABLE III  
DISTANCE AND COST CHARACTERISTICS PER TON OF TOTAL SHIPMENTS; COMMODITY NON-COMPETITIVE, COMPETITIVE, AND AGREED CHARGE RATES  
BY PROVINCE, 1964

Rate Category	Canada	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B.	N.S.	P.E.I.	Nfld.
Commodity, Non-competitive Average Haul, Miles.....	460.1	605.4	601.6	1,013.5	361.2	412.7	427.0	253.4	339.8	425.3	155.9
Average Revenue \$.....	6.9	8.5	8.0	11.4	6.8	7.0	9.3	4.8	2.8	10.4	5.9
Commodity, Competitive Average Haul, Miles.....	332.0	832.3	266.5	311.2	421.5	330.0	226.5	208.2	222.2	135.6	31.8
Average Revenue \$.....	8.3	14.1	8.0	8.0	12.5	9.5	6.7	4.3	3.4	3.6	1.3
Agreed Charge Average Haul, Miles.....	336.3	1,167.8	445.5	267.9	291.2	288.3	259.9	457.9	753.6	898.4	137.9
Average Revenue \$.....	6.3	17.7	9.4	4.6	8.0	5.8	5.4	7.2	7.1	10.7	2.8
Total 3 Rate Categories Average Haul, Miles.....	380.9	784.6	466.2	575.5	371.1	335.1	280.0	267.9	357.4	704.5	132.2
Average Revenue \$.....	7.1	12.2	8.2	8.3	8.5	6.9	6.7	5.0	3.4	9.5	3.4

SOURCE:—Board of Transport Commissioners, Waybill Analysis, Carload All Rail Traffic, 1964.

TABLE IV

AVERAGE FREIGHT COST PER TON AND AVERAGE LENGTH OF HAUL BY PROVINCE ORIGINATED, 1964

Province Originated	Average Haul (Miles)	Average Revenue Per Ton
British Columbia.....	784.6	12.2
Prince Edward Island.....	704.5	9.5
Saskatchewan.....	575.5	8.3
Alberta.....	466.2	8.2
Manitoba.....	371.1	8.5
Nova Scotia.....	357.4	3.4
Ontario.....	335.1	6.9
Quebec.....	280.0	6.7
New Brunswick.....	267.9	5.0
Newfoundland.....	132.2	3.4
CANADA.....	380.9	7.1

SOURCE: Table III.



TABLE VI  
COMPARISON OF MAXIMUM RATE DEVELOPED FROM I.C.C. VARIABLE COST AND I.C.C. FULLY DISTRIBUTED COSTS,  
VARIOUS WEIGHTS AND DISTANCES  
Cents per Hundredweight

Mileage	30,000 pounds				50,000 pounds				70,000 pounds			
	I.C.C.	Max. Rate	Absolute Difference	Percent Difference	I.C.C.	Max. Rate	Absolute Difference	Percent Difference	I.C.C.	Max. Rate	Absolute Difference	Percent Difference
10.....	26.8	59.5	32.7	122.0	17.5	54.8	37.3	213.1	13.5	52.8	39.3	291.1
50.....	29.7	65.3	35.6	119.9	19.7	59.7	40.0	203.0	15.3	58.1	42.8	279.7
100.....	33.3	72.5	39.2	117.7	22.3	67.5	45.2	202.7	17.6	64.6	47.0	267.0
150.....	36.6	79.8	43.2	118.0	25.0	73.8	48.8	195.2	19.8	71.7	51.9	262.1
200.....	40.6	87.3	46.7	115.0	27.6	80.8	53.2	192.8	22.1	78.0	55.9	252.9
300.....	47.8	101.8	54.0	113.0	33.3	94.3	61.3	185.8	26.6	91.1	64.5	242.5
400.....	55.1	116.3	61.2	111.1	38.3	107.9	69.6	181.7	31.1	104.3	73.2	235.4
500.....	62.3	130.8	68.5	109.9	43.6	121.5	77.9	178.7	35.6	117.4	81.8	229.8
600.....	80.5	167.5	87.0	108.1	57.0	155.7	98.7	173.2	46.9	150.6	103.7	221.1
1,000.....	98.7	204.0	105.3	106.7	70.3	189.8	119.5	170.0	58.1	183.7	125.6	216.2
1,200.....	106.8	240.5	133.7	105.9	83.6	223.9	140.3	167.8	69.4	216.8	147.4	212.4
1,500.....	133.0	277.0	144.0	105.2	97.0	258.0	161.0	166.0	80.6	249.8	169.2	209.9
2,000.....	171.9	350.0	178.1	104.3	123.6	326.2	202.6	163.9	103.1	315.9	212.8	206.4
3,000.....	244.0	446.5	202.5	103.5	176.9	432.9	286.0	161.7	148.2	448.6	300.4	202.7
3,600.....	287.6	534.3	246.7	103.2	208.9	544.9	336.0	160.8	175.2	528.1	352.9	201.4

Mileage	90,000 pounds				110,000 pounds				130,000 pounds			
	I.C.C.	Max. Rate	Absolute Difference	Percent Difference	I.C.C.	Max. Rate	Absolute Difference	Percent Difference	I.C.C.	Max. Rate	Absolute Difference	Percent Difference
10.....	11.3	51.7	40.4	357.5	9.9	51.0	41.1	415.2	9.0	50.5	41.5	461.1
50.....	13.0	56.9	43.9	337.7	11.4	56.1	44.7	392.1	10.4	55.0	45.2	461.6
100.....	15.0	63.3	48.3	322.0	13.3	62.5	49.2	369.9	12.2	60.0	49.7	407.4
150.....	17.0	69.8	52.8	310.6	15.2	68.9	53.7	353.3	13.9	68.3	54.1	391.4
200.....	19.0	76.5	57.5	302.6	17.1	75.5	58.4	341.5	15.7	73.8	59.1	376.4
300.....	23.1	89.4	66.3	287.0	20.8	88.3	67.5	324.5	19.3	87.5	68.2	353.4
400.....	27.1	102.3	75.2	277.5	24.6	101.0	76.4	310.6	22.8	99.1	76.3	334.6
500.....	31.1	115.2	84.1	270.4	28.3	113.8	85.5	302.1	26.4	112.8	86.4	327.3
750.....	41.2	147.8	106.6	258.7	37.7	146.1	108.4	287.5	35.2	144.8	109.6	311.4
1,000.....	51.3	180.3	129.0	251.5	47.1	178.2	131.1	278.3	44.1	176.7	132.6	300.7
1,250.....	61.5	212.8	151.3	246.0	56.5	210.3	153.8	272.2	53.0	208.6	155.6	283.6
2,000.....	71.6	245.3	173.7	242.6	65.8	242.4	176.6	268.4	61.9	240.4	178.5	288.4
3,000.....	131.5	310.2	218.4	237.9	84.6	306.6	222.0	262.4	79.6	304.2	224.6	282.2
3,600.....	156.0	381.7	308.6	234.3	121.6	435.2	313.6	257.9	115.1	432.0	316.9	275.3
		518.5	352.5	232.4	144.1	512.5	368.4	255.7	136.3	508.6	372.3	273.1

Source: Interstate Commerce Commission, Rail Carload Unit Costs by Territories for the Year 1964.

TABLE VII  
AVERAGE CARLOAD WEIGHT OF MAJOR COMMODITIES SHIPPED FROM B.C., 1964

Commodity	Tonnage*	No. of Sample Carloads**	Wt. of Cars in Sample (tons)**	Average Sample Carload Weight (tons)
1. Lumber, shingles and lath.....	4,484,202	253	8,577.1	33.9
2. Logs, butts and bolts.....	1,936,734	337	12,034.2	35.7
3. Woodpulp.....	973,688	15	780.2	52.0
4. Bituminous coal.....	635,244	89	6,102.9	68.6
5. Veneer, plywood, built-up wood.....	530,610	97	3,204.1	33.0
6. Fertilizers, N.O.S.....	500,511	51	2,632.8	51.6
7. Pulpwood.....	472,614	67	3,964.8	59.2
8. Zinc ore and concentrates.....	411,236	22	1,610.8	73.2
9. Lead and Zinc: Bar, Ingot and Pig.....	351,737	31	1,933.9	62.4
10. Mfrs. and Misc., N.O.S.....	299,688	85	1,735.9	20.4
11. Newsprint paper.....	284,748	—	—	—
12. Lead ore and concentrates.....	241,565	14	1,009.0	72.1
13. Gasoline.....	193,816	33	1,014.3	30.7
14. Gypsum, crude.....	181,289	24	1,820.9	75.9
15. Fuel, road and petrol, resid. oils, N.O.S.....	175,951	34	1,022.0	30.1
16. Posts, poles and piling, wooden.....	169,214	24	788.6	32.9
17. Coke.....	155,268	21	870.8	41.5
18. Products of forests, N.O.S.....	123,167	18	830.7	46.2
19. Unfrozen food prods., N.O.S.....	115,413	33	925.9	28.1
20. Manufactured Iron and Steel.....	112,018	9	447.0	49.7
21. Mill products, N.O.S.....	109,047	13	510.0	39.2
22. Copper ore and concentrates.....	101,771	10	775.8	77.6
23. Scrap iron and scrap steel.....	101,768	9	432.7	48.1
Total.....	12,661,299	1,289	53,024.4	41.1

SOURCE: \*D.B.S., Railway Freight Traffic, 1964.

\*\*B.O.T.C., Waybill Analysis, 1964.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 37

THURSDAY, NOVEMBER 10, 1966

Respecting

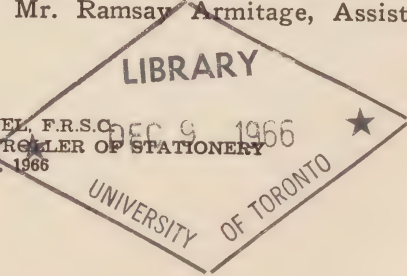
BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

WITNESSES:

*From the Winnipeg Chamber of Commerce:* Mr. John Coppinger, Assistant Manager; Mr. Vic Stechishin, Chairman, Traffic Bureau. *From the Mining Association of Canada:* Mr. V. C. Wansbrough, Vice-President and General Manager; Mr. J. C. Coyne, Q.C., Counsel; Mr. J. H. Burgoyne, Traffic Manager, Hudson Bay Mining and Smelting Co. Ltd.; Mr. J. Dwyer, Traffic Manager, Industrial Minerals of Canada. *From the Maritime Transportation Commission:* Mr. Craig S. Dickson, Executive Manager; Mr. Ramsay Armitage, Assistant Manager.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966





STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice Chairman:*

and

Mr. Allmand,	Mr. Langlois	Mr. Pascoe,
Mr. Andras,	( <i>Chicoutimi</i> ),	Mr. Reid,
Mr. Bell ( <i>Saint John-</i>	Mr. Legault,	Mrs. Rideout,
<i>Albert</i> ),	Mr. MacEwan,	Mr. Sherman,
Mr. Cantelon,	Mr. Martin ( <i>Timmins</i> ),	Mr. Southam,
Mr. Deachman,	Mr. Mather,	Mr. Stafford—(25).
Mr. Groos,	Mr. McWilliam,	
<sup>1</sup> Mr. Hopkins,	Mr. Nowlan,	
Mr. Horner ( <i>Acadia</i> ),	Mr. O'Keefe,	
Mr. Howe ( <i>Wellington-</i>	Mr. Olson,	
<i>Huron</i> ),		

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Jamieson on November 4, 1966.

ORDER OF REFERENCE

FRIDAY, November 4, 1966.

*Ordered*,—That the name of Mr. Hopkins be substituted for that of Mr. Jamieson on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

THURSDAY, November 10, 1966.

(62)

The Standing Committee on Transport and Communications met this day at 9.50 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Groos, Horner (*Acadia*), Hopkins, Langlois (*Chicoutimi*), Legault, Macaluso, Martin (*Timmins*), Nowlan, O'Keefe, Pascoe, Southam, Stafford (17).

*Also present:* Mr. J. R. Baldwin, Deputy Minister of Transport.

*In attendance:* *From the Winnipeg Chamber of Commerce:* Mr. John Copping, Assistant Manager; Mr. Vic Stechishin, Chairman, Traffic Bureau; *From the Mining Association of Canada:* Mr. V. C. Wansbrough, Vice President and General Manager; Mr. J. M. Coyne, Q.C., Counsel; Mr. J. H. Burgoyne, Traffic Manager, Hudson Bay Mining and Smelting Co. Ltd.; Mr. J. Dwyer, Traffic Manager, Industrial Minerals of Canada; *From the Maritime Transportation Commission:* Mr. Craig S. Dickson, Executive Manager; Mr. Ramsay Armitage, Assistant Manager.

Dr. Donald Armstrong, Economic Adviser to the Committee.

Mr. Copping presented the brief on behalf of the Winnipeg Chamber of Commerce and was examined thereon by the Members of the Committee.

On motion of Mr. O'Keefe, seconded by Mr. Langlois (*Chicoutimi*),

*Resolved* that the brief of the Winnipeg Chamber of Commerce be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendix A-29*).

On motion of Mr. Langlois (*Chicoutimi*), seconded by Mr. Horner (*Acadia*),

*Resolved* that the motion passed by the Canadian Transportation Research Forum on October 24, 1966 be printed as an Appendix to this days' Minutes of Proceedings and Evidence (*See Appendix A-29A*).

The Chairman introduced the representatives of the Mining Association of Canada and Mr. Coyne gave an oral summary of their brief.

The Members examined the witnesses. The Chairman thanked these witnesses and introduced the witnesses from the Maritime Transportation Commission.

On motion of Mr. Hopkins, seconded by Mr. Cantelon,

Resolved that the briefs of the Mining Association of Canada and the Maritime Transportation Commission be printed as appendices to this day's Minutes of Proceedings and Evidence (*See Appendices A-30 and A-31*).

Mr. Craig Dickson presented a Summary of the Maritime brief and was examined thereon.

At 12.40 o'clock p.m., the meeting adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 10, 1966.

● (9.50 a.m.)

The CHAIRMAN: Gentlemen, we have three submissions this morning, one by the Winnipeg Chamber of Commerce, one by the Mining Association of Canada, and a third by the Maritime Transportation Commission.

We will start with the Winnipeg Chamber of Commerce. On my right is Mr. John Coppinger who is the Assistant Manager and Mr. Vic Stechishin, Chairman of the Transportation Bureau.

Mr. Coppinger will touch upon the highlights and later we will have a motion to print the brief in its entirety as part of our Minutes of Proceedings. Mr. Coppinger.

Mr. JOHN COPPINGER (*Assistant Manager, Winnipeg Chamber of Commerce*): Mr. Chairman and members of the Committee, we are indeed pleased to have this opportunity to discuss with you some views on the proposed Bill No. C-231 and we hope that what we have to offer will be of some assistance to you.

Beginning with the brief as it is, the first point we would like to touch on is paragraph 2, entitled "The MacPherson Commission". The present bill No. C-231 removes some of the more objectionable features which were found in former Bill No. C-120, but it does include matters not recommended by the MacPherson Commission, and at times seems to disregard some of the terms of reference of that Commission. In particular, we refer to item (a) of the terms of reference contained in P.C. 1959-577 which directed the commission "to consider and report upon", and at the top of page 2 we quote the first of the terms of reference given to the MacPherson Royal Commission.

In paragraph 3 we submit that the recommendation contained in the Report of the MacPherson Commission did little to remove existing inequities. The changes proposed in Bill No. C-231, while designed "to remove or alleviate such inequities", seem to remove any recourse that the individual shipper has when faced with inequities or preference or unjust discrimination.

Turning to page 3, Mr. Chairman, at paragraph 6, we were pleased that the MacPherson Commission accepted the suggestion of the need for a national transportation policy, and we welcome the efforts to draft such policy in Bill No. C-231.

In paragraph 7, "—in establishing the outline of the national transportation policy, both the MacPherson Royal Commission and Bill No. C-231 have one noticeable weakness; their failure to provide adequate protection for the user of transportation services". At the time of the hearings of the MacPherson Royal Commission there were no witnesses who proposed to them the retention of the protective clauses in any bill that might be forthcoming from that, but we feel that this was an oversight rather than a deliberate omission.



In paragraph 9, we say that we believe that in setting up any form of legislation to regulate transportation the following points should be kept in mind:

1. The equitable distribution of burden—The “raison d’être” of the MacPherson Commission was the recognition by parliament that a disproportionate share of transportation costs was being borne by shippers in eight provinces and that this burden had to be alleviated.

2. The right of access to markets—This right should not be impeded by arbitrary carrier action. Transportation is merely an adjunct to a business transaction and has no intrinsic value in itself. Artificial distortions in the freight structure inevitably cause distortions in trade patterns. This in turn leads to a misallocation of resources and a lessening in the realization of Canada’s economic potential.

3. The right of an individual shipper to a specified maximum rate should be preserved.

4. Changes in rate relationships should be gradual to permit business and industry to adjust to changing conditions.

The approach we have taken in paragraph 4 is, I think, Mr. Chairman, somewhat similar to the approach in the proposed Bill No. C-231 with regard to branch line abandonment.

Going now to paragraph 12, one of the prime reasons for maintaining regulation of any form of transportation, as of any utility, must be to protect the individual users from unjust treatment.

At the bottom end of the rate scale this protection is provided to other modes of transportation by the requirement that railway rates should be compensatory. We believe that within the limitation of the compensatory requirement at the bottom and a maximum rate scale at the top there is still room for the setting of rates which could be unduly preferential or unjustly discriminatory.

Paragraph 14: We would recommend that a national transportation policy include a provision to prevent discrimination. This might be in clause 1 at line 10 by inserting the phrase “subject to the interests of the users of transportation” before the words “except in areas where any mode of transport exercises a monopoly”.

This appears at page 1 of the bill.

One other requirement of the national transportation policy should be to make certain that the users of transportation services obtain the benefit of advantages inherent in each mode of transport. For this to occur there must be provision, in setting rates for each mode of transport, that these rates be related to the costs of that particular mode. We would hope, Mr. Chairman, that there would be provision in the bill covering the situation where there is a joint through-movement involving more than one mode of transport, and that the commission should be instructed to see that the division of the through rate is not contrary to the provisions of the act.

The reference here, Mr. Chairman, is clause 324 on page 25 of the bill.

Powers and duties of the Commission—paragraph 16: We would suggest that in clause 15 at line 27 (on page 6 of the bill) that the following phrase be

inserted after the word "object", "of safeguarding the interests of users of transportation and—".

Clause 17 (5) provides that when an order, rule or direction made by the commission is appealed, then that order, rule or direction is stayed until it is heard.

Mr. Chairman, in this connection there can be cases where the imposition of this rule would be detrimental to the railways, and, obviously, there are cases where the implementation of an order should be stayed until an appeal can be heard. For this reason we suggest, in paragraph 19 at the top of page 6, that the clause be amended to provide that "the order, rule or direction appealed from shall not be stayed unless the commission so orders". We believe, Mr. Chairman, that this part of the act should be permissive rather than mandatory.

Dealing with Part III of Bill No. C-231, with respect to extra-provincial motor vehicle transport, the Chamber in 1954 urged that the federal government undertake the control of intra-provincial trucking rather than to delegate it to the provinces, and we see that this is included in the present bill now before you. We suggest that the control of rates, tariffs and interchange of traffic should be similar to the control exercised over the railways.

In Part V, the railways, telegraphs and telephones, the first section deals with abandonment and rationalization of branch line operations. We have no objection to the method of dealing with this problem as it is proposed in the bill.

Section (b), undue preference and unjust discrimination: Bill No. C-231 deletes all references in the Railway Act to undue preference and unjust discrimination with respect to rail freight traffic. We would like to comment on some of these.

Clause 44 proposes the elimination of the present section 317 which is found on page 33 of the draft bill. Section 317 provides, in substance, that the railways must charge equal tolls to all for equal service and must not discriminate.

The proposed new clause, instead of compelling equality of treatment, permits the railways to put new rates into effect and then, after they are in effect, any person who believes that they may prejudicially affect the public interest may apply to the commission, and the commission, if it is satisfied that a *prima facie* case has been made, may grant leave to appeal and may make such investigation as in its opinion is warranted.

The new clause 317 could be improved in line 17 subclause (3) (this is on page 34) by expanding the phrase "prejudicial to the public interest" to "prejudicial to shippers or the public interest".

Clause 45 proposes to eliminate the present section 319, subsection (3) which now prohibits the giving or making of any undue or unreasonable advantage or preference to or in favour of any person, through any method of handling traffic, distribution of cars, etc.

Also, in clause 45, on page 35 of the bill clause 319, subclause (9), line 15 reads "by any company under its control". The Chamber would recommend that this be changed either by deleting the words "under its control" or by inserting the following words to make it read: "by any company whether under its control or not".

Clause 50 deletes the present section 328 which gives the board power to disallow freight rates which the board considers unjust or unreasonable, and to establish rates in their place.

Under the heading (c) Miscellaneous clauses, there are several suggestions to place before your Committee, Mr. Chairman.

Clause 47 amends present section 324. We would suggest that the last line of the clause, that is, line 39, be amended by deleting the words "by rail" and inserting the words "by any participating mode of transport under the control of the commission".

We further suggest that, in order that justice may not only be done but may seem to be done, the commission should be prepared to satisfy itself that such rates are compensatory.

On page 36 of the bill clause 49 repeals section 326, subsection 6. We have been unable to discover the reason for the reference to Part I in the Transport Act. It merely suggests that the Committee might wish to clarify this in their own mind.

Clause 50, which is found on page 37, repeals section 328, subsection (2). The reference here to Vancouver or Prince Rupert should be amended to read "any mainland seaport in western Canada". The purpose of this is to include Churchill or any other seaports which may be developed in the future at tidewater. Our idea here, Mr. Chairman, is that if this is done at this time it may make it unnecessary in the future to amend the bill in this respect.

Clause 52 repeals section 333, subsection (3). We suggest that the act or the regulations should require that the tariffs reducing tolls should be filed with the commission within a reasonable number of days following their coming into force. The reference here is on page 40, Mr. Chairman. The present bill does not provide any requirement in this regard as far as date is concerned.

Turning to page 9 of the brief, Mr. Chairman, there is one comment which I have been asked to insert at this point. I should like to stipulate that, because of the technical nature of the next section, counsel of the Winnipeg Chamber did not feel qualified either to approve or to disapprove of the suggested alternate formula. However, permission was given to place this before you as representing the thinking of the Transportation Bureau of the Chamber.

Here, Mr. Chairman, we have a major submission to make with regard to the maximum rate situation.

Representations made to this Committee indicate that there is much apprehension over the maximum rate formula proposed in the bill. In effect, it provides protection for those shippers who do not need it, and provides no protection for those who do. Also, the railways say that the formula would hurt their revenue position.

The Chamber wishes to suggest for consideration a maximum rate formula drawn up by its transportation bureau, which would overcome the objections mentioned above, and which has several other advantages over the formula in Bill No. C-231.

The Interstate Commerce Commission has published railway cost scales for many years. These cost scales permit the calculation of average costs of movements by railways within relatively broad territories. The cost factors published are as follows: (a) the terminal cost per car load; (b) the terminal cost per hundredweight; (c) the line haul per car mile; and (d) the line haul per hundredweight.

Average costs on a particular movement are determined by multiplying each of the above by the number of units applicable to the movement and adding the products of each calculation. The Chamber recognizes that the railways are



entitled to a return on each of these cost factors sufficient to cover a fair allocation of overhead costs and contribute to profit.

The Bureau feels that a maximum rate formula based on a percentage mark-up on each of these elements sufficient to accomplish this objective would meet the revenue requirements of the railways and would ensure that no single shipper would be charged excessive rates.

The determination of the percentage mark-up in each instance would be left to the discretion of the Canada Transportation Commission. It is presumed that these determinants would be made with the object of producing a scale to approximate present maximum rates, while at the same time allowing the railways sufficient permissive earnings consistent with current practice.

The railways have objected strenuously to the publication of cost data on the ground that this is proprietary information. The commission need not publish the percentage by which each cost factor is increased to produce the maximum rate formula, and, therefore, the publication of the index numbers would not violate the railways' desire for confidentiality.

Furthermore, the publication of a single set of index numbers for all railways sufficient permissive earnings consistent with current practice. disparity.

Lastly, the use of this formula eliminates the need to define a captive shipper, and continues the traditional practice of providing each shipper with a published maximum rate.

We believe it would assist the Committee to present examples of how the Bureau's proposed formula would work in practice. To illustrate the effect on varying lengths of haul and loads per car we have used a hypothetical car of 30,000 pounds travelling 500 miles and again 1,000 miles. In addition, we illustrate the effect on a car travelling the same distances but loaded it to the extent of 100,000 pounds. The cost elements and mark-ups that we have used in these examples are illustrative only and certainly are not advanced as specific recommendations.

We foresee that the normal process, if such a measure were adopted, would be that the Commission would first conduct a cost study to determine each of the cost elements, and then, having assessed the financial requirements of the railways and the probable effect on rate structure, would assign a mark-up to each element. May we assume the following to be the result of such a determination by the commission.

Mr. Chairman, let us just take the first line, the terminal cost per carload. The cost per element was assigned \$60, the mark-up which is applied to cost as differentiated between what might be called the retail price, 50 per cent of \$60 is \$30, which, added together, make a maximum rate factor of \$90 in this regard. The method of constructing this table is similar in the other figures, and I do not propose to detail each one.

We have outlined the detail here. We emphasize that the commission would need to publish only the figures shown in the maximum rate factor column. This would take care of the confidential information situation.

Taking example "A", we have this hypothetical car travelling 500 miles hauling a 30,000 pound load, which amounts to 300 hundredweight; and, going across, the description is one carload; there is one unit in the item; the cost to the railways is \$60; the cost of the car, \$60; the maximum rate factor obtained from above is \$90; and the maximum rate is number 6 which is obtained by multiply-

ing column 2 by column 5, and is \$90. This process can be followed right through, Mr. Chairman, and we end up with the totals shown underneath, columns 4 and 6. The \$141.50 would be the cost to the railways of hauling the car, and the \$325 would be the revenue which they would obtain.

The examples "B", "C", and "D" are similar, with the changes noted in the headings, Mr. Chairman. I think we can perhaps leave that for the moment.

On page 12 we have our conclusion. There are the details which we wish to place before the Committee at this time, but before we close we would like to emphasize our conviction that the two main points of our submission merit detailed consideration.

We are convinced that the protection of the individual shipper requires the retention in Bill No. C-231 of those sections of the present act which guard against unjust discrimination and undue preference. Surely parliament in delegating its responsibilities to the new commission, and in permitting a far wider degree of competition in transportation, must make doubly sure that the necessary protection for the individual shippers, industries or regions is maintained. The retention of these safeguards will not interfere with the working of competition in determining the vast majority of rates, and will provide the necessary recourse for the individual shipper.

We have advanced for your consideration a maximum rate formula which we believe offers many advantages. It is a departure from previous methods of setting rates, but we earnestly hope that this will not deter you from giving it careful examination.

Thank you, Mr. Chairman.

The CHAIRMAN: Thank you, Mr. Stechishin. May I have a motion to print the main brief as an appendix to our minutes and proceedings of today?

Mr. O'KEEFE: I so move.

Mr. LANGLOIS (*Chicoutimi*): I second the motion.

Motion agreed to.

The CHAIRMAN: We will now have questioning on the brief. Mr. Horner?

Mr. HORNER (*Acadia*): Do you feel, if your maximum rate formula were approved, that there is enough variation in it for long-distance hauling? We had the CNR costing people before us—and I forget the figure; I have not got the table in front of me—but I noticed that the cost per ton-mile varied greatly with the length of the haul. In your proposed chart I do not think there is enough variation with the length of the haul. Do you understand what I mean?

Mr. STECHISHIN: I think I understand the question, Mr. Horner. This could be done by the commission in assessing the mark up factors—if there is a larger mark up factor or a smaller one. They could come up with any profile in the relation which they choose.

Mr. HORNER (*Acadia*): Yes.

Mr. STECHISHIN: This would answer the complaint of the railways in that respect as soon as an official complaint has been made.

Mr. HORNER (*Acadia*): But under your third heading here, line haul costs per mile, do you not have to take into consideration the length of the haul in using your formula?

Mr. STECHISHIN: I think it is taken care of in there, but, to answer your specific point, the commission could, in examining the problem, use the figure of 200 per cent on the line haul costs rather than 100 per cent, in which case they would have more of an increase for the greater distances, if that is what the commission felt was required.

Mr. HORNER (*Acadia*): Oh, no; I want it less.

Mr. STECHISHIN: Then let us make it 50 per cent instead of 100 per cent.

Mr. HORNER (*Acadia*): Yes; I see what you mean.

Mr. STECHISHIN: You can come up with any number you want by applying varying percentage factors.

Mr. HORNER (*Acadia*): I see what you mean and perhaps you are right. I have another question: On page 2 and page 12 of your brief you say that you are somewhat concerned about Bill No. C-231 in that the individual shipper will not have enough protection in it.

Mr. STECHISHIN: This is right, sir.

Mr. HORNER (*Acadia*): You do not think that clause 336, as it now is, offers the individual shipper any real protection?

Mr. STECHISHIN: I think I would agree with that, the way it is.

Mr. HORNER (*Acadia*): Even though it is interpreted as widely as possible?

Mr. STECHISHIN: From the figures which have been put before this committee, from what I understand, showing the very small percentage of shippers who now are moving freight under class rates, I think what is overlooked is that a large number of shippers who are now moving under the so called non-competitive commodity rates are getting the rates because of the discrimination section. If this bill goes through the way it is the big shipper can negotiate a captive situation and get a lower rate than the maximum, but the small shipper, who is competing with that big shipper, would have no such power; therefore, you might find a large shipper getting a low rate below the maximum and the small shipper paying the maximum rate. Now this would work an inequity, if you like, on the small shipper within the framework of the present bill even if he could find himself captive. The statement has been made that no one can make himself captive under the terms of this if it is interpreted rigidly as opposed to broadly.

Mr. HORNER (*Acadia*): I agree with you, and I think you have submitted a very good brief and a very detailed brief and I want to compliment you on the work your chamber has done in this regard.

I am going to ask you another question and I do not know if you touched on this in the brief: What is your feeling towards the appeal? One has the right to appeal right back to the same commission. We are told that it will be another group, but it will be of the same body. What is your opinion in that regard?

Mr. STECHISHIN: My feeling is that the average person likes to save face, and I cannot picture an appeal board of the same group changing their minds without some pretty strong additional evidence that they had made a mistake the first time. I do not like it.

Mr. HORNER (*Acadia*): In other words what you are saying is that you have grave doubts about the appeal privileges in this bill?



Mr. STECHISHIN: Well, they are not really much worse than they are today. You can ask the Board of Transport Commissioners for a re-hearing, but you have the appeal under Section 53 at the present time and this is retained in the new bill, so far as I understand.

You can still go to Parliament. I do not like to see Parliament used as an appeal board from the commission, but I suppose that privilege is still there. It is restrictive, mind you; whereas, at the present time any party interested can appeal, under this bill they have to show public interest. We did make a comment on that.

Mr. HORNER (*Acadia*): I have one other question on another aspect of this matter. The commission is going to be a 17 man board and, as part of this 17 man board, they are going to have two vice-presidents, we are told. Part of this 17-man board is going to be the analytical research group. They are going to do the costing and the research necessary in this whole broad transportation field. Do you think that there is any danger that, having the two groups under the same umbrella, after a period of years the research part rather than researching from a purely economical point of view will be researching to substantiate the rules and regulations laid down by the other part?

Mr. STECHISHIN: I do not like the comment on the calibre of people who are not appointed as yet.

Mr. HORNER (*Acadia*): They are all human beings.

Mr. STECHISHIN: Because they are all human beings I think there would be a tendency towards that.

Mr. HORNER (*Acadia*): You think there would be a tendency towards it?

Mr. STECHISHIN: Yes.

Mr. HORNER (*Acadia*): As a chamber of commerce, have you had the feeling, over the years, that chambers of commerce, localities, individuals and the like, would appreciate an independent economic research council for all economic factors with regard to transportation? For instance, we had the discontinuance of the "Dominion" passenger service earlier this year. This committee held a hearing on it and travelled across western Canada, which, to my way of thinking, was a waste of time at that particular time—

The CHAIRMAN: If you were not there, Mr. Horner, you would not know if it was a waste of time.

Mr. HORNER (*Acadia*): I did not go because I formed the opinion earlier.

The CHAIRMAN: Well, I can state a fact. I was there.

Mr. HORNER (*Acadia*): Well, I was not. But the point I am trying to make is: Would a purely economic research council into transportation costing assist independent groups such as yours, the Chamber of Commerce of Winnipeg, or any other chamber, or any other town or locality?

Mr. STECHISHIN: Mr. Horner, in answer to that I would make two observations, perhaps. One is that the MacPherson Commission so recommended, and, secondly, that the recommendation to the MacPherson Commission, I think, originated with the submission of the government of Manitoba. I would have to answer in the affirmative.

Mr. HORNER (*Acadia*): In other words, it might be wise, rather than to have the research part and parcel of the 17-man board, to have it independent and

doing the research strictly from an economic point of view. Then, if the board so desired, let it adopt the economics of the given situation and regulate accordingly, or rule and regulate accordingly in the public interest.

Mr. STECHISHIN: That is right, sir, yes.

Mr. HORNER (*Acadia*): I will forgo any further questioning. I find that the witnesses and I agree so much that further questioning unnecessary. They were very good witnesses, Mr. Chairman.

The CHAIRMAN: I want to thank Mr. Stechishin and Mr. Coppinger for their appearance before us today.

Mr. O'KEEFE: First of all, Mr. Chairman, I want to make a comment, if I may. I want to disagree with Mr. Horner.

The CHAIRMAN: But, Mr. O'Keefe—

Mr. O'KEEFE: I can disagree with members of the Committee, Mr. Chairman.

The CHAIRMAN: Yes; but on what point?

Mr. O'KEEFE: I was on that trip out west and I think it was a very useful trip.

The CHAIRMAN: I have taken care of that matter, Mr. O'Keefe.

Mr. O'KEEFE: I might point out, Mr. Chairman, that Mr. Horner had something over 15 minutes in questioning.

The CHAIRMAN: Let the Chair rule on that, will you, Mr. O'Keefe? Order, please.

Mr. O'KEEFE: Just so long as you so rule.

I would like to ask the witness what is meant on page 3, paragraph 7, where you suggest that the MacPherson Royal Commission and Bill No. C-231 have one noticeable weakness, that is, the failure to provide adequate protection for the user of transportation services. What do you consider adequate protection?

Mr. STECHISHIN: If I might summarize, sir, I think the retention of the anti-discrimination section would probably go a long way to providing the adequate protection. These have been gleaned from the present railway act very, very carefully.

Mr. O'KEEFE: I am new to this committee, Mr. Chairman, and I must be pardoned if I make some mistakes. I see very little reference to consumers. Is there any thought of the consumer in this bill at all, or in your brief, or is it just the shippers you are interested in?

Mr. STECHISHIN: We think of the shippers as consumers, sir. I believe somewhere in the bill it does specify that a shipper, as defined in a section in this act, is a receiver or a shipper of goods by rail or a man intending to ship or receive goods. We are using "shipper" in the definition contained in the section, which includes any buyer of transportation service. Let me put it that way.

Mr. O'KEEFE: Thank you, Mr. Chairman.

The CHAIRMAN: Thank you very much, Mr. Coppinger.

I have a letter from the Canadian Transportation Research Forum enclosing a copy of a motion passed by the Executive Committee of the Canadian Transportation Research Forum at a recent meeting.

I would ask for a motion that their motion be printed.

Mr. LANGLOIS (*Chicoutimi*): I so move.

Mr. HORNER (*Acadia*): I second the motion.

Motion agreed to.

The CHAIRMAN: Gentlemen, we now have before us this morning a submission by the Mining Association of Canada. The witnesses are to my immediate right, Mr. V. C. Wansbrough, Vice President and Managing Director; Mr. J. M. Coyne, Q.C., Counsel; Mr. J. H. Burgoyne, Traffic Manager, Hudson Bay Mining and Smelting Company Limited; and Mr. J. Dwyer, Traffic Manager, Industrial Minerals of Canada Limited and Falconbridge Nickel Mines Limited.

Mr. V. C. WANSBROUGH (*Vice-President and Managing Director, Mining Association of Canada*): Mr. Chairman and members of the committee, the Mining Association of Canada appreciates very much indeed this opportunity of appearing before you and presenting a brief. We would like to begin with an apology, sir, that the brief was not in the hands of your committee. Under the pressure of time it has yet to be, and we trust that no inconvenience has been caused on that account.

Attached to our brief is a list of member companies which form the Mining Association of Canada, and from that list you will see that we represent the great majority of companies in this country responsible for the production of base metals, uranium, iron ore, gold, precious metals and some industrial minerals such as asbestos and potash. Member companies of the association account for about 90 per cent of Canada's total metal and mineral production.

While transportation is a matter of particular importance to mining companies, there are many mines operating in parts of the country where there is no effective alternative form of transportation, and the products of mines, excluding coal, which is not represented in our association, and of primary mineral products, amounted to 44.5 per cent of the total revenue freight carried by railways in Canada in 1965. Freight rates, therefore, are a very important element of cost in the economics of mining operations and can determine whether an ore body is mineable or not. In the case of operating mines the level of freight rates can have the effect of shifting the break-even point between mineable ore and waste rock. With some mineral products transportation costs approximate 50 per cent or more of the total delivered price.

Mr. Chairman, with that by way of general background information, I would call upon our counsel, Mr. Coyne, to present the highlights of our brief.

Mr. J. M. COYNE, Q.C. (*Counsel for Mining Association of Canada*): Mr. Chairman, if I may, I will very briefly, for the benefit of the Committee, scan through the brief, summarizing the basic points.

Commencing on page three, it makes certain general comments by way of introduction. It refers to the basic concept in the bill and the importance of competition as the regulator or criterion for attaining an economic and efficient transportation system at lowest total cost.

We refer to the fact that the bill dismantles most of the structure of regulations and procedures which heretofore governed these matters.

We go on to suggest that competition is not present throughout the transportation system today, and that there are circumstances of monopoly which the bill recognizes, particularly in relation to the maximum rate formula.

We then emphasize the interest of the members of the mining association in the concept of captive traffic, because the products of the mines are typically low-value, bulk commodities which can only economically be shipped in large



volume and at heavy loadings and by rail. They cannot be shipped, generally, by any other mode of transport.

The brief then, on page 4, goes on to deal with three specific aspects of the bill upon which we seek to comment.

The first of these, which is enumerated as 2 on page 4, is the subject of unjust discrimination and undue preference, and, in particular, the repeal of Section 319 (3) of the Railway Act. We take the position that, even in a system in which the forces of competition are to have wide rein in the determination of freight rates, it is still necessary, in our submission, to provide a jurisdiction to the transport commission whereby they could grant relief against unjust discrimination and undue preferences as between shippers.

We point out on page 5 that there has never been an outright prohibition in the Railway Act against discrimination and preferences, as such. It is only if the preference is undue or unreasonable, or if the discrimination is unjust, that the statutory prohibition has effect, and it has been the function of the regulatory authority to determine the application of these limits in cases which have been brought before us.

It is the submission of the mining association that the protection of shippers requires that provisions of this nature be retained and that the Canadian transport commission be empowered to deal with discriminatory practices, we suggest, in a manner similar to that provided with respect to telegraph and telephone poles. We comment briefly that we do not believe the proposed section 317 is adequate for this purpose.

On page 6 we summarize certain recommendations on this aspect of the bill. We recommend (a) that section 319 (3) of the Railway Act be not repealed but be retained for the reasons indicated. Secondly, that it be provided that the establishment by the railways of volume rates shall not in itself be deemed to constitute an undue preference or advantage; and, thirdly, that the commission be vested with jurisdiction to deal with discriminatory practices by the railways in a manner similar to that provided by the proposed section 381 in respect of telegraph and telephone poles.

The next subject, on page 6, is the question of maximum rate control. The brief takes the position that a general formula for the determination of maximum rates such as is proposed will fail to provide to captive shippers the protection which is sought. We urge that no formula such as is contained in section 336 be incorporated, but that jurisdiction for the determination of maximum rates for captive traffic be vested in the Canadian Transport Commission.

We then make certain comments upon the details of the statutory formula which is now being proposed. We emphasize that the light loading of 30,000 pounds virtually has no meaning as far as mining shipments are concerned, because the products of the mines today are typically shipped under much larger loadings, up to and in excess of 140,000 pounds per car.

We also take exception to the proposed fixed assessment of 150 per cent over variable cost of shipping at loadings of 30,000 pounds. Because of the heavy loadings in which the products of the mines are involved, the 150 per cent factor is, in fact, escalated many times when it is related to the actual cost of shipment at the weights which the mining companies ship. We believe that the result is a very unreasonable contribution to overhead, if you like, in respect of these

shipments, if one takes into account, in particular, the actual total dollars which are involved in these substantial movements.

The brief then goes on, on pages 9 and 10—and I do not propose to deal in detail with it—with submissions in relation to these matters of which I have just been speaking. Then, at the bottom of page 9 we make certain comments on the provisions of subsection (16) of section 336. This subsection provides that after a period of five years from the coming into force of the act the commission shall investigate the operation of the maximum rate formula and shall make such recommendations to the governor in council as it considers desirable in the public interest. We suggest that it may not be unreasonable to assume that the period which may be required by the commission in making this investigation may, itself, be quite extensive and that considerable additional time would necessarily elapse before any recommendations which the commission might make, could be enacted into the statute. We suggest that this period might be as long as eight years. We, therefore, make the submission that the five-year period contemplated by the bill should be reduced.

On page 10 we summarize our submission in connection with this aspect of the bill. Firstly, we urge:

that a fixed formula for the determination of maximum rates on captive traffic be not included in the Act; that, instead, jurisdiction to fix maximum rates on captive traffic be vested in the Canadian Transport Commission; and that for this purpose subsection (1) of section 336 of Bill C-231 be amended to read as follows:

We propose there some alternative wording to give effect to what we have been speaking of.

Secondly, that in keeping with the foregoing amendment subsections (2) and (3) and paragraph (b) of subsection (5) of section 336 be deleted and that such other consequential amendments to the section as may be appropriate be made;

Thirdly,

that, in the alternative, if it is determined that a statutory formula is to be enacted for the purpose of determining maximum rates on captive traffic, the formula presently proposed be reconsidered and so amended as to provide reasonable protection to captive shippers against the imposition of unjust and unreasonable rates; and

Fourthly,

that, in any event, provision be made for a review of the statutory provisions respecting maximum rates on captive traffic within the shortest time which is reasonably practicable so that the public may be assured that the effect in practice of the operation of those provisions may be considered and any desirable or necessary amendments enacted with reasonable despatch.

Finally, at the bottom of page 11, we deal with the subject of publication of analyses of railway carload costs, and we really make two points. In the first place, we refer to the usefulness of the analyses of rail carload unit costs which are made by the Interstate Commerce Commission in the United States and we urge that the Canadian Transport Commission be directed to examine the possi-

bility of publishing an equivalent analysis for Canada. It is recognized that the situation in the two countries is different because of the fact that there are only two railways effectively in Canada and that the railways may object to the identification of particular costs of particular movements. We suggest, however, that this is essentially a statistical problem and that it should not simply be ignored as being insoluble.

In the field of captive, as distinct from competitive, traffic, we take the position that the costs of movements which are to determine the maximum rate which the shipper will pay should be made available in the proceedings before the Canadian Transport Commission to the shippers who are involved. We put this on the basis that only in this way can a shipper who is seeking a maximum rate be assured of a fair opportunity to test the factors which are going to enter into the making of the rate.

Madam Chairman, that, I think, concludes the very hurried summary of what is in the brief.

Mr. HORNER (*Acadia*): Mr. Coyne, your general brief deals with your concern about the mining industry and the captive position of the mining industry.

The railroads told the Committee that the competition in the market place would take care of your mining, or industries like yours. What do you think of this competition at the market place? You suggest that competition is not present throughout the country, or something like that. You made that statement.

Mr. COYNE: Yes.

Mr. HORNER (*Acadia*): What about the competition at the market place using the railroads' expression?

Mr. COYNE: I think I can make a comment on that, Mr. Horner, although you will appreciate that I, personally, am neither a miner nor a traffic man.

I think the members of this association understand and recognize the point which has been made, I believe, by the railways, and also, perhaps, by the Minister, to the effect that some of the large diversified mining companies, by virtue of what I think Mr. Gordon called, market competition, have been, and will likely continue to be, able to negotiate with the railways and to receive rates under which they can ship their products to market.

If all companies were of this size, or had particular advantages of location, or were diversified to the extent of some of the enormous integrated companies, then I think one could say that the point had been made. But I think what we are emphasizing here is that the category of mining company which has been referred to in this context, does not by any means cover all of the mining companies, and particularly the members of this association.

Mr. HORNER (*Acadia*): In other words, you are saying that your association is afraid that there may not be competition at the market place to take care of all the mining companies which may be wanting to start up or have already started?

Mr. COYNE: Precisely; and we also take the position that the formula as proposed provides a ceiling so far up in the sky that it would provide no protection.

Mr. HORNER (*Acadia*): Fine; I am very pleased with your answers.



I have another question. On page 2, you point out that transportation costs sometimes will account for 50 per cent of the finished product in the mining industry—that they will be nearly as high as that.

Mr. COYNE: I have been told that this is accurate, and, in fact, an instance was given where the cost of transportation—this is a particular instance, so that I do not want to generalize—was 70 per cent of the price at which the product was sold at delivery point.

Mr. HORNER (*Acadia*): Your association realizes that this bill, if passed, is going to bring about a gradual reduction of federal subsidies to the railroad industry and eventually remove completely all federal subsidies to the railway industry. What effect do you think this will have on transportation rates?

Mr. COYNE: That is a rather difficult question, but since it is posed hypothetically let me attempt to answer it in this way: Presumably if the railways are getting \$100 million a year, their rates can be set at certain levels—and I am speaking of rates generally. Presumably if they are not receiving \$100 million a year from outside sources, the rates will have to be set at some other level. The problem, of course, is the relationship between all the rates at different levels.

Mr. HORNER (*Acadia*): You are suggesting, then, that it might be well to expect that, to offset the removal of the \$110 million subsidy which the railways now receive, they are going to try to obtain this money from some other source, and possibly the rates may go up?

Mr. COYNE: I do not know, but I would not quarrel with that suggestion, or that possibility.

Mr. HORNER (*Acadia*): You say, too, that in some instances transportation costs amount to 50 per cent and you know of one where it is 70 per cent; therefore it might be logical to assume, if we push this rationalization a little bit further, that eventually the cost of the end product is going to go up, because if 50 per cent of the cost is transportation, then if transportation rates go up, the cost of the end product is going to go up. Is this a proper rationalization.

Mr. COYNE: I think it would be, in theory, Mr. Horner, but, of course, as you realize, a very large proportion of the product of the mines is sold in the world market at world prices, and no matter what happens to costs in Canada those prices cannot go up except in relation to world prices generally.

Mr. HORNER (*Acadia*): Oh, yes; that is quite often the case. Canada quite often finds itself in an uneconomic climate to compete in world markets. Am I right? The passage of this bill, with the removal of the subsidies and the increasing of the rates, may bring some members of your association into that very climate of being unable to compete in world markets. I see you are nodding your head. Do you agree?

Mr. COYNE: I was just thinking of what we say at the bottom of page 2, to which Mr. Wansbrough referred at the outset, where the effect of transportation cost on a mining operation is emphasized. For example, the statement is made: "As regards mines already in operation, increases in transportation costs have the effect of shifting the break-even point between mineable ore and waste rock."

Mr. HORNER (*Acadia*): Exactly. I want to go on to another part on page 6 where you deal with clause 317 of the bill. You are not at all happy with clause

317 of the bill as I understand it. What do you mean, in particular, by (b) at the top of page 6 where it says:

That it be provided that the establishment by the railways of volume rates shall not in itself be deemed to constitute an undue or unreasonable preference or advantage.

Is there a clause in the old Railway Act which states that volume rates are unreasonable or do present an advantage? What are you getting at in that particular suggestion?

Mr. COYNE: Mr. Horner, I am on difficult ground here so far as the details of the matter are concerned, but, as I understand it, increasingly it is the case nowadays, as the result of technological improvements in transportation techniques, that the cost of transportation can be reduced by using unit trains, specially constructed cars for various types of movements, and that sort of thing. It is suggested here that where costs are saved in this way, by more efficient methods, through large volume shipment and these technological changes, it is reasonable that better rates may be granted in relation to this movement, but that that should not, in itself, constitute an undue preference to the person who is able to make shipments in this way and at that volume, as against the smaller man.

Mr. HORNER (*Acadia*): I understand it a little bit better now.

In the middle of page 9 you say:

We do not believe that companies lacking special bargaining strength, either by virtue of location or diversification of operations, will derive any effective protection whatsoever from the provisions contained in section 336.

I would like to ask you if you think the bill would be better with the protections which the shipper now has in the Railway Act and without clause 336? In other words, you are saying that under the old section 317, if left as it is, you have more protection than clause 336 provides in this bill? Am I right in so construing your statement?

Mr. COYNE: I think we are approaching it a little bit differently from what your question infers. We have been looking at 317 as a matter separate from the matter of the maximum rate formula in section 336.

Mr. HORNER (*Acadia*): There are several measures which protected the shipper under the Railway Act as it now operates.

Mr. COYNE: That is right, including section 319(3) which it is proposed to repeal. Could I just try to deal with it in this way—

Mr. HORNER (*Acadia*): Briefly my question is this: Those protections which you now have as a shipper are better than the protection given under clause 336? You say that clause 336 gives no protection at all, therefore they must have been better in the past if they were any good at all.

Mr. COYNE: I think, logically, that follows but let me just add this comment, that I think the position we are taking in connection with section 336 is that, by reason of the heavy loading of mining products, the maximum rate which might be determined for heavy-loaded, long-haul shipments of mining products would be so high that it is ridiculous to contemplate. Nobody would be going to the board to get the maximum rate because they would not be shipping any goods at

that rate. Therefore, this particular formula is not a practical application in this industry. It will never take effect; it is up in the sky.

Mr. HORNER (*Acadia*): I have one further question. I do not mean to be hurrying you along, but the Chairman is always keeping an eye on me and he carefully limits me to many time. I have one further question with regard to page 11. You suggest, and believe, that the commission should publish an analysis of carload costings, particularly when freight rates from this point on are going to be cost oriented. Do you think that this will in any way be detrimental to the railroads' competitive nature?

Mr. COYNE: I would have divided that into two, I think. Clearly it is detrimental to the railways, and this is recognized, to publish particular costs relating to particular movements. What we have suggested here is that the Canadian transportation commission—and I am not dealing with the captive traffic point at the moment—should examine whether some type of analysis of rail carload costs, such as has been developed by the Interstate Commerce Commission, could be developed and published in Canada.

As I understand it, the answer to this suggestion has always been that there are 200 railways in the United States and that by publishing an analysis such as the I.C.C. publishes you do not reveal any individual costs of movement by an individual carrier. Whereas in this country, because we only have two, this cannot be done.

What we are saying here is that we recognize this to be a factor, but that this strikes us as being a statistical problem, and that the statisticians should be able in some way to develop some type of analysis which would be useful to shippers and yet would not have the effect of prejudicing the legitimate interests of the railways.

Mr. HORNER (*Acadia*): Do you believe that some type of analysis such as you suggest would be beneficial to the mining association and other shippers?

Mr. COYNE: Because at the moment these very shippers use the I.C.C. analysis, for what it is worth.

Mr. HORNER (*Acadia*): I have no further questions.

Mr. MARTIN (*Timmins*): On page 2 you mention that transportation costs at the present time amount to as high as 50 per cent in certain instances. Could you identify just what these are? Is this mining products shipped purely as raw material, or is it semi-finished, or finished products.

Mr. WANSBROUGH: Mr. Martin, this particular percentage relates to potash.

Mr. MARTIN (*Timmins*): Which is a finished product.

Mr. WANSBROUGH: Yes.

Mr. MARTIN (*Timmins*): I am certainly no expert on transportation, but I have always heard, and it is felt almost universally in the area which I come from, which is the north, that the transportation system has been based on the idea of a very low, practically subsidized, rate for the shipment of raw materials, which is offset by an abnormally high rate for the finished product. Do you think this is a factor in this particular case? In other words, suppose there is some other mineral that is being shipped from the same area over the same distance in the raw material state. Would the same rate apply as applies to potash in this particular case?



Mr. DWYER (*Traffic Manager, Industrial Minerals of Canada Limited*): I am not an expert on potash, but we have a product at a mine in Peterborough and we ship that out—the material comes out of the ground, is processed, purified and shipped as a finished product. There is no further processing or manufacturing done to it at all; therefore, this would not really apply to these products.

Mr. MARTIN (*Timmings*): I do not know if I made my question quite clear, or perhaps I did not catch your answer, but it is the fact that the cost is high in these particular products. Is it because they come under the finished product rate as against the raw material rate?

Mr. DWYER: That is correct.

Mr. PASCOE: Mr. Chairman, some of us were not present at the beginning of the meeting and I might be asking a question which has already been answered.

Did the Mining Association appear before the MacPherson Royal Commission.

Mr. WANSBROUGH: Yes.

Mr. PASCOE: You were talking about specially constructed cars. Are some of those cars your own?

Mr. J. H. BURGOYNE (*Traffic Manager, Hudson Bay Mining and Smelting Co. Ltd.*): No. Certain companies do lease cars, as, for instance, I believe, International Minerals and Chemicals in Saskatchewan.

Mr. PASCOE: Potash.

Mr. BURGOYNE: Yes, potash. They have their own cars and from what I understand they have fairly good rates on their potash because of the fact that they are supplying their own equipment. But this equipment could be leased. I do not know exactly what arrangements they have, to get these cars.

Mr. PASCOE: On page 4 of your brief you say:

Much of the protection against exorbitant rates which our shipments have been afforded in the past, as for example by the operation of the Bridge Subsidy . . .

Will the removal of the bridge subsidy over three years—it is a \$7 million annual subsidy now—affect your cost of shipment?

Mr. BURGOYNE: Yes; the removal of the bridge subsidy will put back roughly 12 per cent on our outgoing products. That is for domestic, because the bridge subsidy does not apply to export or to rates moving material to the United States.

Mr. PASCOE: But it will apply to the domestic?

Mr. BURGOYNE: Yes; and also on inbound materials which we bring from the east. If we are out west and we bring raw products in from the east for our processing that is subject to the bridge subsidy if it goes over the bridge. Any materials which we move out over the bridge, of course, is subject to the bridge subsidy. In the case of any shippers from the east, who are shipping materials to us, their cost will be increased by roughly 12 per cent.

Mr. PASCOE: On page 2 you say:

—transportation costs approximate 50 per cent or more of the total delivered price.

Therefore, if your costs go up it would be that much more of the delivered price.

Mr. BURGOYNE: Yes, it would; subject to other factors which might be affecting the determination of price. It is obvious that it reduces the margin, or it puts pressure on it, if you like.

Mr. PASCOE: What other factors do you see, which would compensate for the loss of the freight subsidy?

Mr. BURGOYNE: You are speaking of the product. Many of these products of the mines are sold at world prices and the price is determined by world market conditions, not necessarily by particular costs in Canada.

Mr. PASCOE: Mr. Chairman, I have just one more question.

On the back of your brief you list almost 100 companies. Do you consider that a large number of those companies are, in some way captive shippers—would be regarded as captive shippers?

Mr. WANSBROUGH: It is difficult to give an exact number, but I should say a very fair proportion of them, Mr. Pascoe.

Mr. PASCOE: Thank you.

Mr. GROOS: Mr. Chairman, I hope it is in order for me to ask one question.

I can quite understand the concern of the mining companies if this is going to work in the way suggested in the briefs, in as much as such a large percentage of the cost of production—the final cost—is represented by the cost of transportation. This is just one more variable that could put a mine in financial difficulties, but there are lots of others. My question is purely for information. I was wondering if it is possible for your association to act as a bargaining agency for all the mining companies in this sort of thing?

Mr. WANSBROUGH: It never has, and I think it would be extremely difficult, with the variety of companies and all the rest of it, for that to happen.

Mr. GROOS: Yes. I did not know if it was possible under your terms of association. I can certainly see the difficulties but you might perhaps eventually be driven to that?

Mr. WANSBROUGH: It could be.

Mr. GROOS: Well, thank you, Mr. Chairman. That is all. I wanted to ask that purely for information.

Mr. SOUTHAM: Mr. Chairman, I think my question was answered in the last reply given to Mr. Pascoe but I think it is worth emphasizing again. We have been very concerned about the testimony given by witnesses from both railways that in their estimation under the provision of Bill No. C-231 we have not a captive shipper. Now, you people state I would say unequivocally that in your opinion there are captive shippers within your industry?

Mr. WANSBROUGH: Yes.

Mr. SOUTHAM: That is all, Mr. Chairman. However, I would like to compliment Mr. Wansbrough, Mr. Coyne and their associates on the very comprehensive and factual brief which they have presented to us. I think it is a very helpful brief.

The CHAIRMAN: I want to thank Mr. Wansbrough, Mr. Coyne, Mr. Burgoyne and Mr. Dwyer for the time that they have taken to be here this morning. Thank you very much.

Now we have the Maritimes Transportation Commission. This will be the last submission today.

I would like to get a motion to print the briefs of the Mining Association of Canada and the Maritimes Transportation Commission and have them annexed to our Minutes of Evidence and Proceedings.

Mr. HOPKINS: I so move.

Mr. CANTELON: I second the motion.

Motion agreed to.

The CHAIRMAN: We have with us this morning Mr. Craig S. Dickson, Executive Manager of the Maritimes Transportation Commission and Mr. Ramsay Armitage, Assistant Manager, Maritimes Transportation Commission.

The brief is before you this morning. I have asked Mr. Dickson to touch on the highlights dealing with the crux of Bill C-231, as has been our policy. Mr. Dickson.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I think Mr. Dickson should have plenty of time to devote to anything which he feels important, because he could—

The CHAIRMAN: You do not have to be concerned. I have already talked with Mr. Dickson.

Mr. BELL (*Saint John-Albert*): I do not think you should rush the witnesses, Mr. Chairman, as you have been doing lately.

The CHAIRMAN: We are not rushing them; but I can understand your interest in this particular brief.

Mr. CRAIG S. DICKSON (*Executive Manager, Maritimes Transportation Commission*): Mr. Chairman, and members of the Committee, first of all I should express our appreciation to the Committee for the opportunity to appear to present our views on Bill C-231. I want to apologize, too, for the fact that my chairman is not here nor is our senior vice-chairman here, nor is our counsel here.

Mr. CHAIRMAN: If you think you can do as adequate a job we will proceed.

Mr. DICKSON: Had the timetable of the Committee been a little different and had these gentlemen not been businessmen in their own right, with their own business commitments, they would have been here.

The CHAIRMAN: You can understand, Mr. Dickson, that the Committee has been sitting for a long time, and witnesses were given quite a long period in which to present briefs. We will go on from there.

Mr. DICKSON: Thank you. I also should apologize, Mr. Chairman and members of the Committee, for not having had the brief in your hands before. It was physically impossible. Mr. Armitage and I have worked long hours, and it was not until yesterday that those to whom we are responsible, our directors and the premiers, were able to give complete approval of the brief and we could finalize it and have it in your hands today.

I think, perhaps, I should read the first paragraph because other than, perhaps, those from our Atlantic provinces, members of the Committee may not be familiar with the commission.

It is a body authorized and supported by the governments of the provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and



Labrador. The commission is affiliated with the Maritime Provinces Board of Trade which is an association of over 125 local boards of trade and chambers of commerce throughout the region.

As I implied a minute ago, the commission's policy is decided by the board of directors who are appointed partly by the governments of the Atlantic provinces and partly through the Maritime Provinces Board of Trade. These directors are from the business and professional people of the region, and I should say, Mr. Chairman, that the commission has the expressed approval and support of each of the premiers of the Atlantic provinces.

Certainly I do not have to tell the Committee that the Atlantic provinces' interest in transportation is one of long standing. We appeared before the Standing Committee on Railways, Canals and Telegraph Lines in 1965, when Bill C-120 was examined, and we sought, at that time, on behalf of the Atlantic provinces, an amendment to the bill, which would in effect continue the freeze on non-competitive class and commodity rates now applying from, to and within the Atlantic provinces until such time as the special examination, into the problems relating to maritime transportation and the Maritime Freight Rates Act, was conducted, completed and acted upon by the government of Canada. I should express the appreciation of the commission of the fact that Bill C-231 does provide this freeze, with a minor exception which we will deal with later in our submission.

I am mindful of your timetable, Mr. Chairman, but I think I should say this about our submission in 1965, that we saw the bill and we attempted to show in that submission—and we see it in this Bill C-231—a further worsening in the situation of the Atlantic provinces. We did not see anything in the legislation that would improve our position relative to other parts of Canada. The circumstances of increasing railways costs and the less pervasive truck competition in the Atlantic provinces would, we felt, from the evidence available and the trends we could see, mean that the Atlantic provinces' position relative to the rest of Canada would be altered in favour of the rest of Canada and to the detriment of the Atlantic provinces.

We tried to show, in a supplemental submission—and I think this is important because the Maritime Freight Rates Act has not been amended or repealed by this bill, nor was it proposed to be by Bill C-120—that, despite the position taken by the Department of Transport in an exhibit it had filed with your predecessor committee on Bill C-120, to the effect that the Maritime Freight Rates Act would adequately protect the interests of the Atlantic provinces, that this act had been unable to maintain the rate relationships which we, in the Atlantic provinces, had expected it should maintain as the act was presently written and, therefore, we could not rely upon it to provide the necessary protection, and I think I am not being unrealistic here in saying that we felt that we could not rely upon the act, even as much in the future as we had in the past, to provide the protection, should this legislation pass. We said that passing an act which would provide new transportation policy for Canada should be coupled with simultaneous changes in the national policy respecting transportation for the Atlantic provinces. Therefore, if I may elaborate there a bit, any adverse effects which may flow from this new national transportation policy could be offset through changes in the national policy.

I might say this, that one of the premiers, in conveying to me his approval of this brief, asked me to bring as forcefully as I could, to the attention of the Committee today, that the Atlantic provinces stand to lose a great deal from the enactment of this act and that, in coming under the provisions of this new act, even as it is amended, or may be amended, the Atlantic provinces expect that the government of Canada would develop and implement national policies respecting transportation for the Atlantic provinces, which would eliminate, remove, offset, or whatever word I should use there, any effect of this bill.

I hope that from the special examination which the government of Canada, through the Department of Transport and the Atlantic Development Board, is carrying out, there will come positive and concrete findings which will restore the intent and the objective of the Maritime Freight Rates Act in this competitive era of today. Should this not be the case, then we would only have to conclude that something had gone wrong somewhere, and the situation would be worse than the one we now face.

Perhaps, Mr. Chairman, in light of your desire to press on, I should not deal with—

The CHAIRMAN: Mr. Dickson, it is not my desire to press on; it is a matter of dealing with the crux of the bill, and highlighting your brief, as all the other witnesses have done. I bring to your attention that I am not rushing you; I am giving you every possible chance to make a full presentation of your brief. I would appreciate if you would keep that in mind.

Mr. DICKSON: Thank you, Mr. Chairman.

I think the Committee is well aware of the events leading up to the MacPherson Commission. The point which we are trying to make in our submission here today is that the events which led up to this legislation were, as we see them, intended to meet two interests, or two objectives. There were the interest of the railways and the interest of the shippers, particularly the shippers in the long-haul provinces, which interest was, we think, quite clearly set out in the MacPherson Commission's terms when they were directed to enquire into inequities in the freight rate structure, their incidence in the various regions of Canada, et cetera; and the second interest, the interest of the railways, the obligations and limitations imposed upon the railways. These two interests were set out in the Royal Commission's terms of reference, and their report attempted to deal with these. In fact, I believe there is one portion of their report headed "A Plan for Reconciliation" where they try to reconcile these two interests.

We want to look at this bill in that light. Does it adequately deal with the interest of the shippers? Does it adequately deal with the interest of the railways? We want to make this point clear, that the Royal Commission, in recommending a relaxation in freight rate regulations governing the railways, did recommend a mechanism by which any shipper who is dissatisfied with the level of the rate charged to him by the railways would have the right, at the Board of Transport Commissioners, or, under the bill, the Canadian Transport Commission, to the protection of the maximum rate. Shippers in the MacPherson Commission's recommendation were not captive by their circumstances. They became captive by choice. They were not captive because they lacked alternative facilities, but they became captive when they signed an undertaking to commit their traffic to the railways in return for the maximum rate.

We mention this now because Bill C-231 differs considerably from this recommendation of the MacPherson Commission. You must establish, before the Canadian Transport Commission, that there is no other alternative, effective and competitive service. I might add that those words, as words, are an improvement perhaps over Bill C-120, but the explanation which has been given in the Committee does not indicate clearly to me, anyway, that the definition of a captive shipper has been broadened greatly.

Turning to clause 1 of the bill, it sets out the objective of a national transportation policy for Canada. The MacPherson Commission, as the members are well aware, drew a clear distinction between a national transportation policy and national or public policy. Because transportation has played—and the commission suggests it must continue to play—such an important part in the economic development and unity of Canada, national policy objectives have been and, again, we suggest, will continue to be met through the use of transportation. I think this is what the Minister of Transport was saying when he introduced the bill and said that you cannot really take politics out of transportation.

We want to refer to some specific examples where national policy over-rides national transportation policy. Desirable as the objectives of a national transportation policy may be, we suggest that they must always be subject to constitutional requirements which, for example, require that for the maintenance of ferry services to connect Newfoundland and Prince Edward Island to the mainland these ferry services and the users of them bear a fair portion of the real cost of the resources, facilities and services provided at public expense, and that shippers who are subject to rail rates issued under the Maritime Freight Rates Act are not required to bear the same portion of the real cost of the resources, facilities and service provided by other carriers or at public expense, that the objectives of Bill C-231 as set out in clause 1, would dictate, since by that statute, the Maritime Freight Rates Act, these rates are required to be held at a lower level.

Another case would be Newfoundland where, as any of you who may have been fortunate enough to visit Newfoundland will realize, the operating conditions and terrain of Newfoundland result in high railway operating costs. Now, the terms of union between Canada and Newfoundland, as they have been interpreted by the Board of Transport Commissioners in its order number 75923, require that the traffic moving over that line has not necessarily to bear its fair portion of the cost of the resources, facilities and services provided at public expense.

You can go on into western Canada where the Crowsnest pass rates are, by this bill and by a previous statute, held at a lower level than the free play of business competition would dictate. Again, a national policy overriding the objectives of a national transportation policy.

Or, to get, perhaps, away from the bill and maybe this would be allowed, Mr. Chairman, the seaway tolls remain at a level which do not cover their portion of the real cost of the resources, facilities and services provided at public expense.

**THE CHAIRMAN:** The national interest, Mr. Dickson.

**MR. DICKSON:** That is what I am saying, Mr. Chairman, that national interest overrides national transportation policy in all these instances, and that the objectives of a national transportation policy set out in Bill C-231 should be



made subject to these constitutional statutory and national interests or national policy requirements. We make a suggestion there that clause 1, which is section 1(b), should be amended by adding the words:

except as may otherwise be necessary for constitutional, statutory or national policy purposes

after the word "expense".

Dealing with subclause (a) of clause 1 of Bill C-231, it over-emphasizes, we suggest, the need for greater freedom of the railways to fix rates. Shippers must be protected against excessive charges in areas of significant monopoly, as the MacPherson Commission recommended, but such protection would only be partial unless those shippers and all shippers were also protected against unjustly discriminatory pricing practices by the railways.

In a cost oriented rate structure, such as envisaged by this bill, it is obvious to us that the shippers must continue to be concerned, as they have been in the past, not only with the level of rates in relation to the actual cost of carriage but also with the relationship between rates. It is fine to say to a shipper that he is paying only cost plus some mark-up, but if those costs plus some mark-up place his rate into a common market with another competing source of supply and place him at an unfair disadvantage or discriminates him in any way—perhaps he could be discriminated against in the case of service—it is not very much comfort to him to say, "Well, you are only paying the cost plus a certain mark-up."

The Atlantic provinces recommend that clause 1(a) be amended by adding, after the word "transport", the words:

provided always that shippers and receivers will be protected against unjustly discriminatory practices either in tolls or otherwise.

We have a section in the brief dealing with the Canadian Transport Commission. I think that I will skip over this; you can read it at your leisure.

The next section deals with extra-provincial motor vehicle transport. The Atlantic provinces believe that an economic and efficient motor vehicle transport system requires greater uniformity in motor vehicle transport regulations both extra-provincial and intra-provincial.

Some degree of uniformity has developed since the Motor Vehicle Transport Act of Canada was passed in 1954, but we would hope that a greater measure of uniformity in motor vehicle regulations could be achieved in the years ahead through co-operation between the provinces themselves without the necessity of federal control.

The next section deals with special appeal and investigation. Bill C-231 removes from the Railway Act all reference to unjust discrimination, undue preference and just and reasonable rates. I cannot put my finger on any specific recommendation of a royal commission where they recommended that these anti-discrimination clauses be removed. The bill will permit the railways to discriminate against freight shippers legally between the maximum and minimum level of rates specified in the bill. This relates again to clause 1. It is not much comfort to a shipper to tell him that he is paying railway costs plus 50 per cent, when his competitor may be paying railway costs plus 25 per cent, if it puts him out of the market. He has no right of appeal, as members well know, until

the railways charge him more than 150 per cent above railway costs for a 30,000 pound carload; unless the railways' rate goes above that he has no right of appeal.

The Atlantic provinces believe that the substance of the principle sections of the present railway act dealing with unjust discrimination should be retained and that any shipper who believes that his business has been prejudicially affected by any act of the railways should be allowed the right to appeal the act, omission or result to the Transportation commission.

The Atlantic provinces believe that the limitation placed upon the commission in section 317 (2) (a) of Bill No. C-231 would remove, except in isolated instances, a shipper's right to seek redress from the commission.

As members may know, section 317 (2) (a) is worded to the effect that the Canadian Transport Commission in considering a complaint under that section shall disregard any discrimination which may occur by location, type of goods, volume, or—perhaps I should look at the exact words. Any discrimination “which may be deemed to be inherent in the location, scale of operation or volume and type of traffic” I would suggest that this practically removes any complaint of unjust discrimination unless you have two plants of equal size, located across the road from one another, or located side by side, of equal size; and complaints of unjust discrimination do not arise in those circumstances. They arise because of differences of operation, of volume, or type of traffic, as a general rule.

So we propose actually three amendments. We suggest that clause 317 (1) should be amended to allow any person who feels that his business has been prejudicially affected, or placed at an unfair disadvantage, to apply, over and above the public interest requirement that is now in clause 317 (1).

Clause 317 (2) should be amended to delete the clause I have just referred to. I notice that in the English version there is a number missing. On page 9, clause 317 (2) (a)—if you would add “(a)” —should be deleted in its entirety so that section 317 (2) would read as follows; and of course, clause 317 (3) would require an amendment to bring it into line with the changes proposed in clause 317 (1) and (2).

Mr. Chairman, something has just occurred to me which I intended to mention earlier. We did supply you with a French version for your convenience. It is not the official version. The official version is the English. Not being fluently bilingual at all I cannot say that it adequately reflects the views expressed in the English version, but it may be of some help to you. In the French version this part on the top of page 9, clause 317 (1), I know is not an adequate translation of this, because there were some changes made in the English version, following the translation in French.

The CHAIRMAN: The English version is the one that will be used.

Mr. DICKSON: In the next section of our brief we suggest that the Canadian Transport Commission continue to enjoy the power that the Board of Transport Commissioners have, the power of suspending or postponing tolls. We do not think the Board of Transport Commissioners exercised this power unduly. It used it only when it was convinced of the fact that the case then before it justified using this power.

Adjudication of complaints before a regulatory board is something that you cannot solve overnight and certainly not in short periods of time. Whereas Bill

No. C-231 is reducing the date between filing and the effectiveness of the tariffs from 30 days to ten days, the Canadian Transport Commission is going to have 20 days less than the present Board of Transport Commissioners have to consider any complaint. We suggest that unless the Canadian Transport Commission is given power to award reparations to the aggrieved shipper, certifying that the complaint is justified—Bill No. C-231 does not provide such power to the Canadian Transport Commission—clause 333 (4) should continue to provide the Canadian Transport Commission with power to suspend or postpone tolls.

The next section refers to clause 334 (2) of the bill, which is clause 53, and that section is, as we all know now I think, the section dealing with compensatory level of traffic, level of rates, tolls, and toll rates in respect of which there may be a subsidy paid. We would like to see it made abundantly clear in that section that the rate is compensatory within the meaning of section 334 (2), when the rate, including any subsidy paid in respect of that rate, exceeds the variable cost of the movement of the traffic concerned. We do not want to be told sometime that the rate, exclusive of the subsidy paid in respect of it, is non-compensatory. We suggest that equality would only demand that you must take into consideration the subsidy paid in respect of that rate in determining whether the rate is compensatory.

The next section deals with the exclusion of the select territory rates for two years, and as I mentioned in the beginning we are grateful that the government has seen fit, in introducing this bill, to exclude the non-competitive commodity and class rates from the effects of this bill for two years.

We believe that the government intended to cover all non-competitive class and commodity rates, but through a technicality this was not the case. Non-competitive commodity rates on lumber and coal and coke from the so-called select territory to points outside of the select territory on coal and coke to points within the select territory—that is, coal and coke movements sold within the select territory—are not covered by section 335.

We recommend to the Committee that section 335 be amended by adding subsection (c) to incorporate reference to the rates on these particular commodities, lumber and coal and coke.

The next section deals with the Atlantic ports. The Maritimes Transportation Commission and the governments of certainly the provinces of New Brunswick and Nova Scotia, in which the two major ports are located, are concerned that the passage of the bill have an adverse effect on the port traffic via the Atlantic ports of Halifax and Saint John. These ports are already struggling to retain their share of Canada's export and import trade.

The Atlantic ports are located at considerable distances—distances much greater than their competing ports—from their main hinterland, and until such time as government policies can develop the economy of the Atlantic provinces so that the Atlantic ports can be assured of sufficient local traffic to ensure their economic viability the ports must continue to depend upon export and import trade of the distant hinterlands of central and western Canada, and the United States. Under the cost oriented structure of Bill No. C-231 the Atlantic ports can be expected to be placed at a further disadvantage in relation to closer ports.

The next few paragraphs deal with a policy of port parity rates which have been established, first, voluntarily by the North American railways and railroads to apply to U.S. and Canadian North Atlantic ports, Norfolk, Virginia and north. The parity rate structure, as it has become known, means that rates to or from



any of these North Atlantic ports, U.S. or Canada, are the same from, say, Toronto to Halifax or Saint John as to New York or Portland, despite the fact that the Canadian ports are 300 to 600 miles further from Toronto than is New York. I say this agreement on port parity rates was voluntary, but I think it is worth drawing to the Committee's attention that parliament deemed it necessary to require several Canadian railways to adhere to this port parity rate structure as a matter of law, and I believe that even the Board of Transport Commissioners at one time had an order—I am not sure whether it is in effect at the moment—which required that the rates via Canadian ports were no higher than via U.S. ports. I quote three examples of where parliament deemed it necessary to require the Canadian railways to provide through-rates on export traffic from the point of origin to the point of destination at no time to be greater via Canadian ports than via U.S. ports.

As I say, we are concerned that the class-oriented rate structure of Bill No. C-231, with our greater distances, will further disrupt this parity of rates to the disadvantage of the Atlantic ports and to the advantage of the closer ports.

To indicate to the Committee that the commission is not seeing ghosts where there may be none, Canadian National Railways estimated, before the Royal Commission on Transportation, that on the 1,049,000 tons of traffic that it handled through the Atlantic ports in 1957 of—and I think this was only a particular class of traffic—it incurred an additional operating expense of \$2½ million over the operating expense it assumed it would have incurred if the traffic had been handled by Portland.

On a broad average, then, in this railway example, the operating costs and the type of costs which the railway rates will be predicated upon, should this bill C-231 pass, are approximately 12 cents a hundred pounds lower via Portland than via the Atlantic ports. In situations where the railways have a choice to make on what tariff action they should take to increase their net revenue, the higher operating cost routes via the Atlantic ports are certainly to be the losers, unless the railways have before them a clear statement that it is the continuing policy of the government of Canada, notwithstanding Bill No. C-231, that rates via Canadian ports for export and import traffic from point of origin to point of destination shall at no time be greater via Canadian ports than via United States ports.

The next section just makes the point, Mr. Chairman, that we want to make sure that under Bill No. C-231 any deficits that may be incurred on commuter trains or passenger trains are not reflected in the freight cost of shippers and receivers.

I think I should read the final section: The Atlantic provinces regret that the Committee was unable to have placed before it cost data which would enable it to assess the effect of the bill upon (a) the railway revenue position and (b) the maximum level of rates that would be available to shippers in relation to existing rates. Without such information it is not possible for the Atlantic provinces at this time to offer constructive amendments to clause 336 and related clauses. Nevertheless, we hope that the commission can assist the Committee in the consideration of this important aspect of the bill through a separate brief which we hope could be submitted very shortly.

That, Mr. Chairman, I think, covers our brief.

The CHAIRMAN: Thank you very much. I do not know about the preparation of the second brief. We have another brief.

Mrs. RIDEOUT: Mr. Dickson, Bill No. C-231, I think, has been accepted, by nearly everyone who has presented a brief, as a solution to the problem of transportation in Canada. It has been generally accepted that we are protected in the Maritime area by the Maritime Freight Rates Act. I gather from your brief that you feel that we are going to lose some advantages under this bill. Could you tell me just what you feel we are going to be giving up?

Mr. DICKSON: Yes, Mrs. Rideout. In our brief we mention that Atlantic provinces rates have never been required to reflect the real cost of transportation. As you know, the bill says that costs shall be the determinant factor almost exclusively in freight rate making. Our rates to and from the Maritimes have for years been based on a series of arbitraries, as they are called, over Montreal. These arbitraries did not bear a direct relationship at all to the distance involved. It is possible—and quite probable, we think—that this arbitrary policy of making rates for the Maritimes under the bill would disappear. If so, and our rates are related to distance instead of to the arbitraries which are not related to distance, then we see nothing but an increase in the rates.

We are giving up the criteria of just and reasonable rates and unless amendments are made to the bill, we are giving up the anti-discrimination provisions of the existing legislation except, for the case of 317 which requires that you have to prove public interest and it may be very difficult for a shipper, or even several shippers, to prove that any action of the railways is prejudicial to the public interest. It is certainly prejudicial in their interests, but can it be proved that it is prejudicial in the public interest?

We may be giving up our exclusion from the so-called equalization policy of 1952. This, again, was a national policy of the government of Canada, that we should not be subject to equalized rates which would destroy this arbitrary rate structure, and which would relate our rates to mileage rather than to an arbitrary system of rate-making.

We are giving up 30 to ten days for increases in rates, and a lot of other smaller things such as I have mentioned; but there are, I think, four or five large ones which I have mentioned.

Mrs. RIDEOUT: Yes, I understand. Do you feel that through this study which is presently going on while the freeze is in effect, you will be able to resolve the problems satisfactorily, or when this so-called freeze is lifted are we going to be in a very difficult situation regarding rates in the Maritimes?

Mr. DICKSON: Mrs. Rideout, in replying to that I would not want to indicate that we do not have confidence in the Atlantic Provinces transportation study. I think there is a very good group of people working on it. I think I indicated in this presentation that we expect this study to yield positive and concrete findings which will improve our position. The minister has made the statement in the house, and perhaps to the Committee, that he expects great things from this study. So do we.

Mrs. RIDEOUT: But we are actually going to update our thinking in this way, in so far as—

Mr. DICKSON: Yes, our position, I think, is pretty well stated at the top of page 3, that we feel this study must have, as its primary objective, the restoration, in the competitive era that we are in now, of the national policy respecting

transportation for the Atlantic region of Canada, which was originally expressed in the Inter-Colonial Railway Rate Structure and reaffirmed by the passage of the Maritime Freight Rates Act.

Mrs. RIDEOUT: But you would agree that it is time this study took place in the Maritimes?

Mr. DICKSON: Oh, indeed; it should have been done long ago.

Mr. NOWLAN: May I ask a supplementary? Mrs. Rideout spoke of updating the thinking because of this study, but unless there is an economic consideration written into this act, or some statement by the Minister—but that is useless, because it should be in the act—regardless of the study and how updated it is, rates will go up if there is any change in the Maritime Freight Rates Act. In fact, they are going up now, even with the freight rates act.

Mr. DICKSON: Perhaps I could deal with that part of it, if I may.

Mrs. RIDEOUT: May I still ask another question, Mr. Chairman, after Mr. Dickson has answered Mr. Nowlan's supplementary?

Mr. DICKSON: There is, apparently, a misconception here. The Maritime Freight Rates Act does not maintain any rate at any fixed level, unlike the Crowsnest Pass Agreement, which maintains rates at a fixed level; the Maritime Freight Rates Act does not do this. Rates subject to the Maritime Freight Rates Act are open to increase and decrease, subject to the limitations of the Railway Act and certain limitations of the Maritime Freight Rates Act, but these limitations in the Maritime Freight Rates Act, as we attempted to show in our supplemental submission to the committee on Bill No. C-120, are rather ineffective, in a competitive air, in maintaining the position of Maritime rates in relation to rates elsewhere. The Maritime rates have increased, and can increase, and will increase, under this bill, and it is little comfort, again, to a Maritime shipper if, subject to the Maritime Freight Rates Act. The rate increases by 50 per cent, he is getting only a reimbursement of 30 per cent under the Maritime Freight Rates Act when his competitor's rate, because of competition, or for some other reason, did not increase at all. His position has been destroyed in relation to his competitor.

This is the weakness of the Maritime Freight Rates Act. It is unable, in the competitive air of today, to maintain the relationships, which I suggest the Duncan Commission, which recommended this Maritime Freight Rates Act in the first place, and which Parliament, in passing it in 1927, felt that they were providing for the Maritimes. It is time—I agree with Mrs. Rideout here—that this intent of providing the protection that the Maritime Freight Rates Act was supposed to provide for the Maritime provinces was re-introduced so that it is effective for the Atlantic provinces.

Mrs. RIDEOUT: Mr. Dickson, during the hearing of the brief from the Canadian National Railways I asked them about their freight express experiment in the Maritime area with the amalgamation of the services I expressed some concern, because they felt that in order to operate this as efficiently and effectively as possible there must be some change in the freeze on the Maritime freight rates. The answer I received was that there was no need for concern, that it was only technical. I was wondering if you have had any talks with the railways. I am concerned because I am afraid that any lifting of any part of the freeze sets a precedent that is not good, perhaps; I do not know.



Mr. DICKSON: Yes; to answer your question, Mrs. Rideout, we have chatted with Canadian National about this. They are combining, not only in the Atlantic provinces but I think throughout Canada, their express freight, although the Atlantic provinces were the guinea pig, if I may use that phrase. It has been known for some time, I think, that the railway would like to consolidate its two levels of rates. There is a higher express rate and a lower l.c.l. freight rate, to use the old terms. The higher express rate was a premium rate because you got premium service on passenger trains for express shipments. Now most of the express—Perhaps I should be careful here. Less express freight is carried on passenger trains now than at one time because we have fewer passenger trains, and even the trains that we do have are more all-passenger consist than they used to be. What happens is that you have two levels of rates, in many cases—I think somebody raised this question in the House the other day—and you have the same service, and one shipment paying an express rate may move in the same piece of equipment as one paying the freight rate. The railways wanted to consolidate these two levels of rates.

The fact that Canadian National has asked for inclusion under section 335 would indicate that there must be some increases in the rates or they would not have to ask for the inclusion. I have had discussions with Canadian National officials since their brief was presented and I have asked them to try to indicate to me what the new proposed level of express freight rates would be in relation to the existing rates. It was just this morning that I was handed a sheet of paper with these figures and I have not been able to assess them because these are only the proposed new ones. I would have to sit down and compare them with the old ones to see what it means to us. I think that the people in the Atlantic provinces are reasonable, but we want to know what is involved.

Mrs. RIDEOUT: Yes. My purpose is not to impede progress; it is just that I have a concern about rates.

Mr. BELL (*Saint John-Albert*): Mr. Dickson, I want to ask a question on the fears that you have expressed—and there has also been some intimation of worry by members of the committee—about the further deterioration of the Maritime Freight Rates Act and the possibility of higher rates in the Maritime region under this new legislation.

Your amendments do not really deal with this general problem, and I gather yours is more a fear of the unknown and that the act may be interpreted too narrowly. How can we get at this? We will have to have a policy statement from the minister, I suppose, but can we get at anything more specific?

Mr. DICKSON: Let me say this, Mr. Bell, that I do not think we are afraid of the unknown, really. I think we have enough trends in the past and discernible trends in the future to know that the bill does not improve our position one bit.

This is a national transportation policy for Canada to be applied uniformly across the country. I might just say, having in appearing before the Royal Commission on Transportation, that I think I could quote you—if I had time—a page of transcript for each of the premiers of the Atlantic provinces, who appeared where they said that a uniform national transportation policy for Canada will not recognize the special needs of the Atlantic provinces.

We are faced with a bill which provides a uniform national transportation policy for Canada. Do we make an exception to it for the Atlantic provinces? This may be one way to do it. On the other hand there is the other way—and I

think this is what the federal government tends to favour in light of the Atlantic provinces transportation study—that the adverse effects, the deterioration in the Atlantic provinces' position, could be dealt with through national policy flowing from the Atlantic provinces transportation study. As Mrs. Rideout pointed out, we do not know what comes from that study. We can only hope that with the good people working on it, with adequate directives from the minister and the government, I suppose, and through full co-operation, which I can assure the committee the Maritime Transportation Commission and the Atlantic provinces governments are giving to the study, that it will produce positive, concrete results which will take into consideration these adverse effects that may flow from this new uniform national transportation policy. The study might just have a bit of timing difficulty here inasmuch as it, I believe, is supposed to be finalized by the end of January 1967, and this bill may or may not be in effect by then—depending on the timetable here, I suppose. In any event, it certainly will not have been in effect too long.

Mr. BELL (*Saint John-Albert*): In effect, Mr. Dickson is saying that we either should hold up the bill or keep our fingers crossed.

Mr. DICKSON: I wish I could recommend to you a wording for an amendment which would allay your fears. I share them. But, I do not quite know how you could the amendment in this bill. If we could we certainly would be for it.

Mr. BELL (*Saint John-Albert*): My second question, Mr. Dickson, is with respect to your worries about the reports and the possibility that there may be a reluctance to honour reports of parity policy that has been established. Again, here, nothing really has been taken away; it is just that with this new legislation, a new national policy, it would be desirable to have this in some way re-accepted again into our new formulas.

Mr. DICKSON: Something may be taken away. Perhaps I did not make this too clear; in fact, I am sure I did not. It may be in degrees rather than in substance, but under the philosophy of the bill rates shall be based on costs. The port parity rate structure disregarded distance because if the same rate applied to Saint John as applied to Halifax well, then, obviously it did—or, to use a more extreme example, if the same rate applied to New York as applied to Halifax then obviously distance was disregarded.

Suppose the railways, in their managerial wisdom, deemed that all rates must yield them at least 25 per cent above their variable cost but found that the parity rate to Saint John compared to the parity rate to New York did not yield them that. Then, can we depend upon the managerial discretion of the railways to maintain that rate to Saint John, or is that rate going to go up. You could use the same example with Saint John versus Halifax, Halifax versus New York, and so on. If I may paraphrase the evidence of the CNR to the MacPherson Commission, they alleged to the commission that their costs were roughly 12 cents a hundred pounds higher to the Atlantic ports on this million tons of traffic than they were had the traffic been handled via Portland. Well, unless the rates to Portland are nearly 12 cents more than they really want from the variable costs plus a mark up then the rates to Halifax and Saint John are very liable to be subject to an increase. I think that for the protection of the ports it is very desirable that a clear statement, either in the bill—this would be the preferable place for it, I suppose—or by the Minister, I was going to say, should be before the railways so they do not, through their managerial discretion, decide that this

parity rate structure shall not be maintained any longer because of their cost, revenue position, and so on.

Mr. BELL (*Saint John-Albert*): There has not been any indication yet of of readjustments?

Mr. DICKSON: Well, yes there has, Mr. Bell, although I want to be fair to the railways. I think in instances up until this year at least, they have been quite fair in attempting to maintain this parity rate structure. We have had rates adjusted to Halifax and Saint John to equal the rates to New York or other American ports when we could show them there was traffic to move.

There have been instances in those negotiations where the railways have put this qualification on it: We are prepared to publish rates to Halifax and Saint John the same as to New York provided they cover our costs. I cannot think of an example at the moment where they said it did not cover costs, but there have been some, I think, that were rather questionable. Oh yes, there was an ore movement, I believe, from down around the Niagara Falls area, where the cost of handling this via the Maritime ports was not sufficient, the railways alleged, to cover their cost and they could not meet the competition of the United States ports. We rather fear from several recent developments that there may be a move to get away, more and more, from this parity rate structure. Perhaps that is all I could say.

Mr. BELL (*Saint John-Albert*): You may recall that the Department of Transport put certain figures on the record—it was the day the minister appeared. I was not able to get the figures. I have so many transport files on my office I cannot even find my desk. Mr. Baldwin could correct me on this. They tended to show by these figures, if my information is correct, that there was greater competition in the Maritime region, and there has been some increase. You explained that these figures really do not show a favourable, healthy, competitive situation; it has just been a general local type of traffic.

Mr. DICKSON: Yes, Mr. Bell, I was just looking for the figures to try and answer your question. First of all, let me say that in our supplemental submission on Bill No. C-120 we said that this exhibit—the one you are referring to which was distributed to the members here one day fairly early in the hearings—which tended to show that there had been a growth of traffic moving in the Maritime region at competitive rates and agreed charges, does not conclusively show whether competition is effective in reducing rail rates, or whether that competition is of a shallow nature which has been able to make only minor reductions in the existing rates. This is the important point on that exhibit. It shows that we have had a growth in competitive rates and agreed charges in the Maritime region. All other parts of Canada have also had a growth in competitive rates and agreed charges over the years. The Atlantic provinces is still the area with the least competitive rates and agreed charges. I think this is found in a yellow-covered submission made on behalf of Canadian National and Canadian Pacific, a memorandum on railway freight rates which was submitted the day that CPR appeared. It indicates on page 7 that 50.4 per cent of the revenue calculated on the basis of the waybill analysis in the Maritime region came from competitive rates and agreed charges. In the eastern region, which is the large block of Ontario and Quebec, 64.7 came from competitive rates and agreed charges, and in the western region competitive rates and agreed charges produced only 39.5 per cent. But I think in fairness, to make a comparison with the



eastern region and the Maritimes, you must include statutory grain rates, because they did not take any increase at all and competitive rates and agreed charges may have. Therefore, if you include the statutory grain rates, the western region is 69.5. That still leaves us on the low end of the pole.

Mr. Armitage has just drawn to my attention,—and this is a point I wanted to make in reply to your question—that the mere showing of a number of rates, or the revenue received from those rates, does not indicate how effective they are, because with regard to this recent 10 per cent increase in agreed charges and competitive rates that the railways announced in September, following the railway strike, we found that many competitive rates and agreed charges in the Atlantic provinces, when increased by 10 per cent, brought those rates to a level higher than the non-competitive rates. This would indicate that the competition was only effective in reducing your rate less than 10 per cent. While it will show up as a competitive rate and show up in numbers of competitive rates, it is not very effective.

Mr. BELL (*Saint John-Albert*): I do not understand what you mean by captive by choice and not captive by circumstances.

Mr. DICKSON: The MacPherson Royal Commission, as I read the report, did not say that a shipper was captive by his circumstances of not having any other way of moving his goods. You can be ridiculous, if you want to, because you can move goods by some means or other, even if you have to get a helicopter to fly them out, but that is not a very effective or economical way of moving goods. Therefore, if you want to argue in the absurd, you can say no one is captive. The MacPherson Royal Commission did not make its recommendation for maximum rates for captive shippers on the basis that these shippers had no physical means of moving their goods. It made its recommendations—as I read the report—on the basis that the shipper dissatisfied with his rate, whether he was using trucks before or something else, went to the board and said, I am willing to become captive to the railway by my choice of committing my traffic 100 per cent to the railways in return for the maximum rate I am entitled to by law.

Mr. BELL (*Saint John-Albert*): Do you agree substantially with the western briefs that worry about the removal of the unjust discrimination? I suppose you are worried, as suggested here, that the onus of proof is too great on the shipper. What I am getting at is this. If the railways have contended that there will be superfluous appeals, then you are not really worrying about who appeals, but just this extra burden that is going to be on them now under this new legislation.

Mr. DICKSON: You are speaking of the discrimination section, 317.

Mr. BELL (*Saint John-Albert*): Yes, the section that you referred to in your brief.

Mr. DICKSON: Yes, our concern is that a shipper or a number of shippers may feel that they have been unjustly handled by some act or omission or other result of railway policy and, as the section now stands, I find it difficult to see how a shipper or a number of shippers could convince the Canadian Transport Commission that whatever is affecting them is prejudicial to the public interest. It is certainly prejudicial to their interest, but whether you could convince the Canadian Transport Commission that it is prejudicial to the public, because I am not sure what the public interest is. How broad does the interest have to be before it becomes a public interest? This is what we are all concerned with. I

think if the CNR—to give an example—said: We will give these rates to the St. Lawrence ports and not to the Atlantic ports, this may be in the public interest. But the concern of the shipper is much smaller than that. His concern may be very, very difficult to prove that it is in the public interest, and you have to get his interest in there.

Mr. BELL (*Saint John-Albert*): I would like to thank Mr. Dickson for those very good answers. I think, Mr. Chairman, that we will have to make certain that we have the Minister here to try and deal with some of these policy matters in so far as it is possible.

The CHAIRMAN: The minister has been at all our hearings. He is in Vancouver this week, and that is the only reason he was not available.

Mr. BELL (*Saint John-Albert*): I do not mean that. I am just giving notice. I know Mr. Baldwin will note that there are three or four specific areas that the Maritimes are worrying about and it has been admitted that it probably cannot be covered by specific amendments. I am sure the Minister will give us assurance on them which, at least, will give us something to go on in our future battles.

The CHAIRMAN: As you know Mr. Bell, not only the Minister, but Mr. Baldwin or someone from his staff have been here daily.

Mr. BELL (*Saint John-Albert*): After having been away for a few days myself, Mr. Chairman, I am not criticizing.

Mr. NOWLAN: I think Mr. Bell covered most of my points. Mr. Dickson, from what you have said, and certainly because of what is in the brief, would it be fair to say that until this study is completed that you are somewhat apprehensive of this bill, as it presently stands?

Mr. DICKSON: Yes, I think that is a fair statement, Mr. Nowlan, because we do not know what the study will produce, nor do we know what the government will do with the study when it is completed, despite the good chaps that may be working on it. If they do not get to the bottom of the problem, then what?

Mr. NOWLAN: You also indicated specifically in your brief about the removal of discrimination, the question of port parity and this question of the Maritime freight rates which is up in the air because of this study. Do these things give you concern and make you somewhat apprehensive.

Mr. DICKSON: I should add, if I may, that if we are to come under a uniform national transportation policy, we are concerned about section 336, which is the maximum rate control, and I have not dealt with it because I had hoped we would have an opportunity later. I notice the Chairman shaking his head. May I just say that one of the premiers, in conveying to me approval of this brief, expressed great concern that we had not been able to deal with this.

The CHAIRMAN: I am sure Mr. Dickson will find that this has been pretty well dealt with in many other briefs. We will consider it anyway. Mr. Nowlan, you may continue.

Mr. NOWLAN: He has already indicated he would like to mention something on that cost formula. We have a pause for two years and then we are not certain what is going to happen after two years. I appreciate hope springs eternal, and many of your answers to Mr. Bell were based on hope, so far as I could detect. Why cannot there be something written into this bill to protect the select area, or the Atlantic provinces' interest, on the same basis that there is something written in the bill that protects the Crowsnest Pass' interest in rates? The reason I

mention this is that in the bill under section 328 (1) it says that the Crowsnest Pass rates shall govern the movement of grain. In section 335, which is applicable to the maritime freight rates, says only they will continue for two years. Why can there not be something written in the bill at this point to say, to continue for two years notwithstanding the study, and that this will not prejudice or put the Maritimes in a more adverse position than it presently is in. Is that not the area where there could be some amendment?

Mr. DICKSON: Yes I think that is true, Mr. Nowlan. In all fairness to the department, I think they have tried in the clause that is there to cover the situation that you and I and other members of the Committee are concerned about. I suppose we are being too immodest this morning. Perhaps we should be asking to go back to the 1897 level of rates. If we did we would be happy, and I do not think we would have to worry about the bill then.

But we are not that immodest, and I think that such a policy would be too inflexible for the Atlantic provinces. We want a policy though, that will meet the intent of the 1897 rates but flexible enough to meet the competitive conditions of today.

Mr. NOWLAN: I can appreciate that we cannot live in 1897, but I cannot understand, frankly, why there cannot be a clarification or amendment of section 335 of this bill to ensure that we are in a no worse position, regardless of this transportation study, in two years. As this bill reads at present, in two years time everything is freed, and we are depending upon goodwill in the hope that things are going to be analyzed. There is the upsurge in thinking that Mrs. Rideout mentioned earlier. But the fact of the matter is that because some western people stated pretty strongly their objections to the lack of protection for the Crowsnest Pass in this bill, the Crowsnest Pass is specifically set out in it. I just wonder if we have been forceful enough.

Mr. DICKSON: Certainly I am in agreement with your idea, and I suppose that if we are in agreement in principle then, with some ingenuity and goodwill, we should be able to devise a solution.

Mr. NOWLAN: The Minister's statement does not leave me with anything so far as the bill is concerned.

The CHAIRMAN: Mr. Nowlan, before the Maritime Freight Rates Act is done away with, it would have to come before parliament.

Mr. DICKSON: If I may try to explain, I think Mr. Nowlan's concern is that if you repeal any part of the Maritime Freight Rates Act you disrupt the competitive relationship of the maritime shippers with other shippers of Canada. It has been disrupted now, and no part of the act has ever been repealed. If no action were taken to improve the Maritime Freight Rates Act to make it more effective then, under the bill, our situation would just get worse and worse, at a steadily increasing pace. I think this is where the difference of understanding is.

The CHAIRMAN: I would think, from the experience I have had, that before anything is done, even after the study, a representation would be made both to the government of the day and probably to this Committee. I am just querying. Would that not be protection?

Mr. NOWLAN: It is the hope and the intent, perhaps, but there is nothing in the bill as there is with the Crowsnest pass.



The CHAIRMAN: I would say that others would have a pretty good claim for discrimination, would they not? Go ahead, Mr. Nowlan.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I think Mr. Nowlan has a point, but it would bother me that there is not an obligation on the government to deal with this report in some way, because if you go ahead with Mr. Nowlan's suggestion, then you have taken the pressure off the government to do something. This gives them an easy way out if you put this protection in that you want. I think we should go even further than what you suggest.

The CHAIRMAN: We can have Mr. Baldwin make a comment on this.

Mr. BALDWIN: As I understand it, Mr. Bell, the Maritime Freight Rates Act remains untouched in its effect, and it could not be changed unless the change was approved by parliament. Mr. Dickson has expressed some dissatisfaction with the present workings of the act, but to be changed it must come before parliament.

The two-year freeze on all non-competitive rates into the Maritime provinces will maintain the position of the maritimes, while the very extensive and extremely expensive series of studies relating to the whole transportation system in the Atlantic provinces is being undertaken. The main portion of that study will be completed some time early next year.

The government decided on a two-year freeze on the rates I mentioned, as an indication of good faith to those provinces to allow what it hoped would be ample time to receive this study early next year, review its implications, and decide what further policy action or legislative action would be necessary in the light of these studies which might, among other things, include amendment of the Maritime Freight Rates Act.

Mr. BELL (*Saint John-Albert*): I think that is informative, but Mr. Nowlan has hit upon a weakness here. I think Mr. Dickson should consider, after he has gone back to Moncton, some sort of an amendment to see if we cannot pin this down with a time limit that would give us this extra protection that everybody agrees is necessary. But whether it is possible to phrase an amendment of this nature, I do not know.

Mr. DICKSON: In concluding what I would like to say on that point, Mr. Bell, we certainly would be glad to try. Certainly we would feel happier if there were an indication in legislative form that the government recognizes the purpose and intent of the Maritime Freight Rates Act. Perhaps those are not good words to put into legislation, but you lawyers can correct me if that is so.

Mr. BELL (*Saint John-Albert*): Can I ask Mr. Baldwin, while we are on this, what happens to the two-year freeze? Can it die out automatically?

Mr. HORNER (*Acadia*): It does, unless renewed by parliament, and it does not have to come back into parliament, either. It will come into force after two years.

Mr. BELL (*Saint John-Albert*): And when it dies, Mr. Baldwin, is it right that the rates cannot go up?

Mr. BALDWIN: I do not have the transcript before me, admittedly. My recollection is that the Minister of Transport was questioned on this at a much earlier stage of these proceedings, and indicated that if it had not been possible for parliament to deal with whatever changes might require legislative action arising out of the studies to which I referred within the two year period, it was

equally possible for parliament to extend this until parliament could deal with this new legislation.

I believe that point was raised by Mr. Pickersgill at an earlier stage in one of the answers.

Mr. NOWLAN: Mr. Chairman, assuming there is no legislative action either on this bill or the Maritime Freight Rates Act, is it correct that after two years the present rates to a select area in the maritimes can go up?

Mr. BALDWIN: Yes. Those non-competitive rates which are frozen under this bill.

Mr. NOWLAN: So you do not need any substantial amendment to the Maritime Freight Rates Act, or any legislative activity there, to have an increase in the rates after the two years, the way this bill reads at present?

Mr. BALDWIN: Yes, but they would still be subject to the Maritime Freight Rates Act financial assistance, no matter what happens.

Mr. NOWLAN: I appreciate that. But the point I want to make clear is that on the basis of this bill as it stands at present, and with no legislative action on the Maritime Freight Rates Act, if nothing is done rates can go up after two years in the Maritimes, with the subsidization that they get from the Maritime Freight Rates Act. Is that correct?

Mr. BALDWIN: Yes, on the group that is frozen, which is a partial group.

Mr. HORNER (*Acadia*): Do you believe, Mr. Dickson, that because of the Atlantic provinces' position with regard to Canada's exporting markets that these ports, if necessary, should have a reduced or subsidized freight rate on all export goods moving through them? Is this the sense of what you are recommending in this brief?

Mr. DICKSON: I am not quite sure that I have understood your question. Let me try to put it in my words. We are saying that we have two major ports in the Atlantic provinces, Halifax and Saint John, National Harbours Board ports; they have extensive facilities, and these ports are not being used now to their capacity, so surely they should be used more.

Certainly the economic climate of the Atlantic provinces is affected by the volume of traffic that flows through Halifax and Saint John, and we want to see not only our existing traffic maintained, but we want to share in any increased growth of Canadian export and import traffic.

We are concerned that with the rate freedom—the cost-oriented rate structure—that flows from this bill, our ports will be placed at a still further disadvantage in competing for Canada's export and import trade in relation to American ports, and in relation to closer Canadian ports.

Mr. HORNER (*Acadia*): In the last ten years, would you say that the percentage of export products that moved through the Atlantic ports has decreased or increased. The volume may have increased, but has your percentage of total possible volume decreased or increased?

Mr. DICKSON: Yes, although I have no figures in front of me, Mr. Horner.

Mr. HORNER (*Acadia*): I will take you as an authority.

Mr. DICKSON: Well, I am going to quote another better authority. I think the government, through the Atlantic Development Board, did a study of the effects of winter navigation on the ports of Halifax and Saint John. I think that study, if

I recall it correctly, found that the Atlantic ports, although their volume may have remained the same or increased, had lost their share of the traffic.

Mr. HORNER (*Acadia*): Mr. Bell says that they lost their share of a lucrative traffic—

Mr. DICKSON: Well, yes, this is a very important point.

Mr. HORNER (*Acadia*): —to American ports.

Mr. DICKSON: Or closer Canadian ports.

Mr. HORNER (*Acadia*): Or closer Canadian ports. If in the national transportation policy there was something to the effect that a subsidy could be paid on goods for export going through these three ports in the Atlantic region, would this, in your opinion, enhance your position there and reverse the downward trend.

Mr. DICKSON: Well, Mr. Horner, we have not suggested a subsidy. I suppose the time may come, and maybe it is closer than you and I think, when a subsidy would be necessary. We are concerned with keeping the traffic going through the ports. Now, maybe a subsidy is part of the solution. We have not said that today though.

Mr. HORNER (*Acadia*): Well, I am saying it, and I am asking you if this would reverse the trend. The trend has been going down. I am interested in a bit of all Canada and I realize the ports' position out there. I am saying if we, in our wisdom, and this Committee thought that a subsidy should be paid, would this reverse the trend, in your opinion. Naturally, if the subsidy was large enough I suppose it would have an effect.

Mr. DICKSON: If it is being used effectively it should.

Mr. HORNER (*Acadia*): It should.

Mr. DICKSON: We are not adverse to subsidies because we have not said anything against them. There are subsidies in here under section 329, I think it is.

Mr. HORNER (*Acadia*): I know there is a subsidy there. I say that because the Maritime Freight Rates Act is only guaranteed for two years. After two years the maritimes are in the dark.

Mr. DICKSON: Yes.

Mr. HORNER (*Acadia*): Actually the Maritime Freight Rates Act does now provide for a reduction in some cases up to 30 per cent and in other cases up to 20 per cent, depending on where the movement of goods is.

Mr. DICKSON: Mr. Horner, I want to make something clear here. Your figures of 30 per cent and 20 per cent are right, but you cannot find a rate anywhere that is reduced by 30 per cent. Maybe I should take a minute of the Committee's time to explain the workings of the Maritimes Freight Rates Act. The 20 per cent reduction applies within the Maritimes Freight Rates Act territory, and that is east of Levis, Quebec. So rates within that area are 20 per cent lower than they would be in the absence of the act. Now, shipments from the Maritimes Freight Rates Act territory to other parts of Canada, excluding import traffic—and import traffic is excluded within the region as well—and excluding export traffic through the Atlantic provinces, are reduced by 30 per cent on the portion of the movement that occurs within that territory. So, if you have a movement for 500 miles in Quebec territory, 500 miles outside of Quebec



territory the reduction in your rate would be 15 per cent, one-half of the 30 per cent. So, you never, never find a 30 per cent—

Mr. HORNER (*Acadia*): I do not like the word “never”; this is rare.

Mr. DICKSON: No, mathematically you cannot.

Mr. HORNER (*Acadia*): All right. It could be 29 per cent though if most of the traffic was inside the territory and—

Mr. DICKSON: Mathematically it might be but I do not really think so.

Mr. HORNER (*Acadia*): So in two years hence you are in the dark and rates may well go up 15 per cent on goods moving out of the maritimes.

Mr. DICKSON: Well, yes, they could go up 15, 50, 75, or 150 per cent, as they have since the war.

Mr. HORNER (*Acadia*): So I say with the removal of the Maritimes Freight Rates Act it will bring about an increase in freight rates in your provinces.

Mr. DICKSON: I am sorry, I thought you were still assuming the Maritime Freight Rates Act applied.

Mr. HORNER (*Acadia*): Oh, no.

Mr. DICKSON: If you remove the Maritimes Freight Rates Act, well, the railways would get no more subsidies; obviously they would try to recoup that amount of money they had received under subsidies from the shipper, and I think they can do it.

Mr. HORNER (*Acadia*): You think they could do it, but, it would cause an increased figure.

Mr. DICKSON: Oh, yes, indeed.

Mr. HORNER (*Acadia*): I just want to clearly understand what I am doing to my friends in the maritimes if I pass this bill. I am helping to create higher freight rates for them if I pass this bill. I want to clearly understand what I am doing.

Now, in your interpretation of Section 335 of this bill, can the Maritimes Freight Rates Act be dropped after two years without it coming back into parliament?

Mr. DICKSON: No, I do not think so. I am not a lawyer, but I would say, no.

Mr. HORNER (*Acadia*): You think it would have to come back into parliament.

Mr. DICKSON: There would have to be an act to repeal the Maritimes Freight Rate Act, as I understand the legislative process. Mr. Horner, it is little use, perhaps, giving a fellow a 28 or 29 per cent subsidy in extreme cases if his rate goes up by 50 per cent, and his competitor's does not go up at all. This is very little help to him. It does not keep him competitive with his competitors.

Mr. HORNER (*Acadia*): Could you repeat that?

Mr. DICKSON: You do not repeal the Maritimes Freight Rates Act. But if an Atlantic province shipper has his rate increased by 50 per cent—maybe we are using an extreme case there, but I think it could be possible—and his competitors' rates did not go up at all, then it is of little comfort to him to know that he is getting 28 or 29 per cent in the extreme instances under the Maritimes Freight Rates Act—and I would suggest it is more likely to be 8, 10, 12 or 14 per cent

subsidy under the Maritimes Freight Rates Act. This does not help him keep his market.

Mr. HORNER (*Acadia*): I agree with you and I am alarmed that you say that the freight rates may well go up 50 per cent. If they did go up anything like that this would put a producer in the maritimes at a real disadvantage competitively. Is that correct?

Mr. DICKSON: It is always dangerous to mention a figure out of the air. I am not making their arguments for them at the moment, but the railways would suggest, competition may come along and not allow them to increase them 50 per cent. But, if it does not, then they can. And if their costs are such that they think they need more mark-up then they are going to increase them. They have increased them 10 per cent and perhaps next year it will be another 10.

Mr. HORNER (*Acadia*): I know all about that.

The CHAIRMAN: Would not the trucking industry provide adequate competition in the Atlantic provinces to the railways?

Mr. DICKSON: Well, I would like to say this, Mr. Chairman, in reply to that. We are interested in increasing competition; there is no mistake about that. We would hope that the Maritimes Freight Rates Act will be amended to apply to the truckers. We have made this submission to the government.

The CHAIRMAN: But they want to do away with it, Mr. Dickson.

Mr. DICKSON: Now, I want to suggest to the Committee that you must use caution on this competitive argument. Our manufacturers—and this is what we are trying to do in the Atlantic provinces—are trying to increase our manufacturing to provide year round, stable employment for our people—and they cannot exist solely on our local market because the 2 million people in the Atlantic provinces are scattered all the way from northern Labrador to Yarmouth and from St. John's, Newfoundland to Edmundston, and there is no place except at Halifax where you could find a concentration of 100,000 people. If we are going to attract manufacturers and increase the economic activity of the firms already there, we have to have access to the larger markets of Canada.

We hope that we have more competition among the transport media, but our manufacturers are competing with manufacturers located much closer to those markets. Let me just see if I cannot provide you with a quotation from an earlier submission. I cannot locate it but I will try to do it from memory. The policy of the government of Canada back around 1897 was that the rate from Halifax, for an average carload commodity to Montreal, was 25 cents. The rate from Toronto to Montreal was 22 or 23 cents. The spread was roughly 2 or 3 cents. Now the difference in distances is quite considerable. This spread got out of kilter during the period before the Maritime Freight Rates Act. When the Maritime Freight Rates Act was passed it restored that spread to 2½ cents, again. Now, that spread, for practical purposes, so far as the shipper is concerned, is out of kilter again. I do not think that even the keenest truck competition will provide today that same relationship of rates for the shipper in Halifax versus the shipper in Toronto in getting into the Montreal market because of the distance involved. We want the competition but I do not think competition by itself today, even if we had much keener competition, could do this because of the distance, because of the economic factors of life. The trucks between Toronto and Montreal get the load in both directions—there is no question about that; he is not concerned

—while the trucker going to and from Halifax is not sure he can get a load in both directions. So I do not think competition, even improved, can today achieve the objective we want. It might some time in the future and if it does, all well and good.

Mr. HORNER (*Acadia*): What you are saying is that you do not think there is enough competition.

Mr. DICKSON: Our competition is not keen enough, and even if it were as keen as it is between Montreal and Toronto, in the number of trucks and so on, I do not think it would, today, provide the right number we need, because of the economic factors which I mentioned.

Mr. HORNER (*Acadia*): Some 55 per cent of the traffic in the maritimes moves within the maritimes region under class and non-competitive rates. This would suggest to me that even within the maritime regions truck competition is not keen enough. Now, from a taxpayer's point of view, should we be subsidizing the railroads because the rails are already there, or should we take that same money which could be paid to subsidize the railroads for that movement of goods, build highways? Would it be more economical in that region to build highways for the trucks and maintain them or subsidize the rails and the railbed, which is already there and has a low maintenance?

Mr. DICKSON: I am not particularly fond of either alternative.

The CHAIRMAN: He likes the status quo.

Mr. DICKSON: No, Mr. Chairman.

Mr. HORNER (*Acadia*): I always look at things from the taxpayer's point of view and worry about the tax dollar.

Mr. DICKSON: I think a better alternative would be a combination of existing policy and the two alternatives you have suggested.

Mr. HORNER (*Acadia*): I realize that.

Mr. DICKSON: I want to say this, first, in reply to a comment Mr. Nowlan made. You said, the same amount of money. This is a phrase which, I think, is dangerous. I think what is needed particularly in the Atlantic provinces, is not an approach toward the same amount of money but rather, what is the problem, what can be done to solve it, how much does it cost, can we afford, with the money we are now spending plus or minus some, to solve it? This is the way, I think, the problem should be approached. I am frightened to death that sometimes we tend to approach this by asking, how much money are we spending, and can we use it more effectively—and I am for that—rather than approaching it by asking, what is the problem, how can it be solved, and then how much money does it cost, and can we afford it?

Mr. HORNER (*Acadia*): I appreciate that.

Mr. DICKSON: Let me now get back to your question. I think that as the roads improve—and this is being done everywhere in Canada—and if the truckers could get some break under the Maritime Freight Rates Act, as we have suggested they should, and if our economic climate improves, if all these factors take place, our situation will improve, and it will not be necessary for the government of Canada to keep pouring forth dollars into the thing.

Mr. HORNER (*Acadia*): Are you submitting a brief to the Atlantic Provinces Transportation Study?



Mr. DICKSON: Perhaps I should say, first, that the Atlantic Provinces Transportation Study is not holding public hearings. They have indicated that they are not particularly anxious to receive written submissions.

Mr. HORNER (*Acadia*): How can you trust that your point of view will be heard by them?

Mr. DICKSON: Hope springs eternal.

Mr. HORNER (*Acadia*): Hope springs eternal. You are a lot more trustworthy than I think a Westerner would be. I would not take that chance.

The CHAIRMAN: I want to thank Mr. Dickson and Mr. Armitage for being with us today and for presenting their brief. I realize the difficulties you may have had. I am suggesting to Mr. Dickson that, if possible, he submit their supplementary brief to us on maximum freight rates. We will have it printed and just go from there for now. I will let you know how we make out.

Mr. DICKSON: I noticed that you and Mr. Armitage made some arrangements in that regard.

The CHAIRMAN: Yes. I will have to check with him and make sure they are all right. We will adjourn until Thursday morning at 9.30 a.m. to hear the brief of the Province of Manitoba.

On Friday morning at 9.30 a.m. we will start the clause by clause study, as was agreed upon. The remainder of the amendments by D.O.T. will be distributed to all members with explanatory notes thereunder. Representatives from the Province of Alberta will be here on the 22nd, but the clause by clause study is starting on the 18th.

## Appendix "A-29"

THE WINNIPEG CHAMBER OF COMMERCE  
TO THE STANDING COMMITTEE  
ON TRANSPORT AND COMMUNICATIONS  
INTRODUCTION

1. The Winnipeg Chamber of Commerce is an association of business and professional men and women, grouped together for the common purpose of promoting the commercial, financial, professional, educational and social conditions of Greater Winnipeg in particular and Manitoba and Canada in general. It was founded in 1873 and incorporated in 1879 as the Winnipeg Board of Trade. Under that name and its present name, it has over the years maintained a lively interest in transportation matters and now with a membership of more than 2,400 in some 1,400 firms in the greater Winnipeg area, the Chamber represents a broad section of the business community of Greater Winnipeg.

## THE MacPHERSON COMMISSION

2. This Chamber has given careful consideration to the recommendations of the MacPherson Royal Commission on Transportation and to the two Bills presented to Parliament, proposing to implement some of these recommendations. While the present Bill C-231 removes some of the more objectionable features of the former Bill C-120, it does include matters not recommended by the MacPherson Commission and seems at times to disregard some of the terms of reference of that Commission. In particular, we refer to item (a) of the terms of reference contained in P.C. 1959-577 which directed that Commission to consider and report upon:

"Inequities in the freight rate structure, their incidence upon the various regions of Canada and the legislative and other changes that can and should be made, in furtherance of national economic policy, to remove or alleviate such inequities."

3. We submit that the recommendations contained in the Report of the MacPherson Commission did little to remove existing inequities. The changes proposed in Bill C-231, while designed "to remove or alleviate such inequities" seem to remove any recourse the individual shipper has when faced with inequities or preference or unjust discrimination.

## A NATIONAL TRANSPORTATION POLICY

4. In its submission to the MacPherson Royal Commission, made in February, 1960, the Chamber had several things to say about the need for a National Transportation Policy. The following are extracts from that submission:—

"There is nowhere that we can find a clearly defined National Transportation Policy. The Turgeon Royal Commission on Transportation in its report in 1951 devoted its last chapter (chapter XVII—pages 274-280) to the subject. In effect, it lists a wide range of relevant facts and governmental actions and suggests that these are all part of the National

Transportation Policy but there is no analysis to determine an overall policy. Rather this review suggests that, at various times, there have been a number of policies, based on the national interest or regional development, or expediency, or just the accident of history, which have been related to transportation."

"The increasing complexity of our national life in general and of transportation in particular, seems to us to indicate the need for a clearly stated transportation policy, or, if you prefer, a philosophy of transportation, which will serve as a guide to the various bodies regulating transportation throughout Canada and which will be a guide or an indication to carriers and users of transportation in general, of what are considered sound principles operating in the best interests of the general public."

5. We therefore recommend to the Commission:—

"That early and serious consideration be given to the development of a clear and comprehensive national transportation policy and means by which the present multiplicity of controls can be integrated within the framework of such a national policy."

6. We are pleased to see that the MacPherson Commission accepted the suggestion of the need for a National Transportation Policy. We welcome the efforts in Bill C-231 to draft such a policy.

7. However, in establishing the outline of a National Transportation Policy, both the MacPherson Commission and Bill C-231 have one noticeable weakness; their failure to provide adequate protection for the user of transportation services.

8. Unfortunately, the need for this protection was not stressed in presentations to the MacPherson Commission. That may have been an oversight but we believe it can be said fairly, that no one, except perhaps the railways, considered that removing inequities in the freight rate structure would require the removal of the protection heretofore afforded the users of the railway's services.

9. We submit that in setting up any form of legislation to regulate transportation, the following should be kept in mind:

1. *Equitable Distribution of Burden*—

The "raison d'être" of the MacPherson Commission was the recognition by Parliament that a disproportionate share of transportation costs was being borne by shippers in eight provinces and that this burden had to be alleviated.

2. *The Right of Access to Markets*

The right should not be impeded by arbitrary carrier action. Transportation is merely an adjunct to a business transaction and has no intrinsic value in itself. Artificial distortions in the freight rate structure inevitably cause distortions in trade patterns. This, in turn, leads to a misallocation of resources and a lessening in the realization of Canada's economic potential.

3. The right of the individual shipper to a specified maximum rate should be preserved.



4. Changes in rate relationships should be gradual to permit business and industry to adjust to changing conditions.

10. The MacPherson Commission concluded that a viable and efficient transportation system could best be attained by giving the forces of competition the fullest possible play.

11. The Commission took the stand that the protection for the small shipper rests in competition and where there is no competition, in his right to apply for a maximum rate. These same principles have been followed in Bill C-231.

12. However, one of the prime reasons for maintaining regulation of any form of transportation, as of any utility, must be to protect the individual users from unjust treatment.

13. At the lower end of the rate scale, protection is provided for other modes of transportation in the requirement that all railway rates should be compensatory. Nonetheless, we believe that within these two limitations, there is room for the setting of rates which could be unduly preferential or unjustly discriminatory.

14. We recommend that the National Transportation Policy include a provision to prevent discrimination. This might be in Clause 1 at line 10 by inserting the phrase "subject to the interests of the users of transportation" before the words "except in areas where any mode of transport exercises a monopoly".

15. One other requirement of the National Transportation Policy should be to make certain that the users of transportation services obtain the benefit of the advantages inherent in each mode of transport. For this to occur there must be provision, in setting rates for each mode of transport, that these rates be related to the costs of that particular mode. And, when there is a joint through movement involving more than one mode of transport, the Commission should be instructed that, within its competence, it should ensure that the division of the through rate accruing to each mode of transport is not contrary, in any way, to the provisions of this Act.

#### POWERS AND DUTIES OF THE COMMISSION

16. In line with the foregoing proposal, we suggest that in Clause 15, at Line 27, the following phrase be inserted after the word "object"—"of safeguarding the interests of users of transportation and..."

17. Clause 17 (5) provides that when an order, rule or direction made by the Commission is appealed, then that order, rule or direction is stayed until it is heard.

18. We believe that this could be detrimental and might work severe hardship on carriers. At the same time, we realize that there may be cases where it would be wise to suspend any decision until an appeal has been heard.

19. For that reason, we suggest that the clause be amended in Line 35 to provide that—

"The order, rule or direction appealed from shall not be stayed unless the Commission so orders".

## BILL C-231—PART III

*Extra-Provincial Motor Vehicle Transport*

20. In April of 1954, this Chamber, on the basis of a study made by its Transportation Bureau recommended that:—

“The Federal Government exercise its new found jurisdiction and not seek to delegate it to the provinces”.

21. It follows that this Chamber approves the inclusion of Part III in Bill C-231 and urges Parliament to move speedily to bring extra-provincial motor vehicle transportation under the control of the Transport Commission. We further suggest that the control of rates, tariffs and interchange of traffic should be similar to that exercised over railways.

BILL C-231—PART V—RAILWAY, TELEGRAPHS  
AND TELEPHONES*(a) Abandonment and Rationalization of Branch Line Operations*

22. In its submission to the MacPherson Royal Commission, the Winnipeg Chamber proposed:—

“That the railways study the abandonment of unremunerative railway branch lines and services, and the substitution of integrated or other truck services”.

“That a joint study, by the railways and the grain trade, be made of the branch line system in western Canada giving due consideration to the existence of the line elevator system”.

23. The Chamber therefore supports the rationalization proposed in Bill C-231 and believes it to be much better than that in Bill C-120.

*(b) Undue Preference and Unjust Discrimination*

24. Bill C-231 deletes all references in the Railway Act to undue preference and unjust discrimination with respect to rail freight traffic. We would like to comment on some of these:—

25. Clause 44 proposes to eliminate the present section 317.

26. Section 317 provides, in substance, that all railways must charge equal tolls to all for equal service and must not discriminate in favour of or against any person, company or locality unless the Board is satisfied that, owing to competition, it is expedient to allow such tolls.

27. The proposed new section, instead of compelling equality of treatment, permits the railway to put new rates into effect and then after they are in effect any person who believes that they may prejudicially affect the public interest . . . “may apply to the Commission for leave to appeal. . . and the Commission, if it is satisfied that a prima facie case has been made, may grant leave to appeal and may make such investigation. . . as in its opinion may be warranted”.

27. The new section 317 could be improved in line 17 sub-section (3) by expanding the phrase “prejudicial to the public interest” to “prejudicial to shippers or the public interest”.

28. Clause 45 proposes to eliminate the present section 319, sub-section (3).

29. The present sub-section (3) of section 319 prohibits the giving or making of any undue or unreasonable advantage or preference to or in favour of any person, through any method of handling traffic, distribution of cars, etc. and generally prohibits unjust discrimination.

30. Also, Clause 45—Section 319, Sub-section 9, Line 15 reads “by any company under its control”. The Chamber would recommend that this be changed either by deleting the words “under its control”—or by inserting the following words to make it read:—

“by any company whether under its control or not”.

31. Clause 50 deletes the present section 328 which gives the Board power to disallow freight rates that the Board considers unjust or unreasonable and to establish rates in their place.

### (c) *Miscellaneous Clauses*

32. In this part of the Act, there are several miscellaneous suggestions to place before the Committee.

33. Clause 47 amends the present Section 324. We suggest that the last line of the Clause—line 39—be amended by deleting the word “by rail” and inserting the words “by any participating mode of transport under the control of the Commission”.

34. We further suggest that, in order that justice may not only be done but may be seen to be done, the Commission should be prepared to satisfy itself that such rates are compensatory.

35. Clause 49 repeals Section 326, sub-section 6.

36. We have examined sub-section 6 and have been unable to discover the purpose of the reference to Part 1 of the Transport Act. We suggest that the Committee might wish to clarify this.

37. Clause 50 repeals Section 328, sub-section 2. The reference here to Vancouver or Prince Rupert should be amended to read “any mainland seaport in Western Canada”. The purpose of this is to include Churchill and any other seaports which may be developed in the future at tidewater.

38. Clause 52 repeals Section 333, sub-section 3. We suggest that the Act or regulations should require that tariffs reducing tolls should be filed with the Commission within a reasonable number of days following their coming into effect.

### CAPTIVE SHIPPER—MAXIMUM RATES

39. Clause 53, Section 336, is concerned with the captive shipper and maximum rates. Here we have a major submission to make.

40. Representations made to this Committee indicate that there is apprehension over the maximum rate formula proposed in Bill C-231. In effect, it provides protection for those shippers who do not need it and provides no protection for those who do. Also, the railways say that the formula would hurt their revenue position.

41. The Chamber wishes to suggest for consideration a maximum rate formula drawn up by its Transportation Bureau which would overcome the



objections mentioned above and, indeed, has several other advantages over the formula in Bill C-231.

42. The Interstate Commerce Commission has published railway cost scales for many years. These cost scales permit the calculation of average costs of movements by railways within relatively broad territories. The cost factors published are as follows:—

- (a) terminal cost per car load,
- (b) terminal cost per cwt,
- (c) line haul per car mile,
- (d) line haul per cwt,

43. Average costs on a particular movement are determined by multiplying each of the above by the number of units applicable to the movement and adding the products of each calculation.

44. The Chamber recognizes that the railways are entitled to a return on each of these cost factors which is sufficient to cover a fair allocation of overhead costs and contribute to profit.

45. The Bureau feels that a maximum rate formula based on a percentage mark-up on each of these elements sufficient to accomplish this objective would meet the revenue requirements of the railways and would ensure that no single shipper would be charged excessive rates.

46. The determination of the percentage mark-up in each instance would be left to the discretion of the Canadian Transportation Commission. It is presumed these determinants would be made with the object of producing a scale to approximate present maximum rates, while at the same time, allowing the railways sufficient permissive earnings consistent with current practice.

47. The Railways have objected strenuously to the publication of cost data on grounds that this is proprietary information. The Commission need not publish the percentage by which each cost factor is increased to produce the maximum rate formula. Therefore, the publication of the index numbers will not violate the railways desire for confidentiality.

48. Furthermore, the publication of a single set of index numbers for all railways under the jurisdiction of the Commission will lessen complaints of regional disparity.

49. Lastly, the use of this formula eliminates the need to define a captive shipper and continues the traditional practice of providing each shipper with a published maximum rate.

50. We believe it would assist the Committee to present examples of how the Bureau's proposed formula would work in practice. To illustrate the effect on varying lengths of haul and loads per car, we have used a hypothetical car of 30,000 lbs. travelling 500 miles and 1,000 miles. In addition, we illustrate the effect on a car travelling the same distances but loaded to 100,000 lbs. The cost elements and "markups" used are illustrative only, and are not advanced as specific recommendations.

51. The normal process would be that the Commission will first conduct a cost study to determine each of the cost elements. Then, having assessed the financial requirements of the railways and the probable effect on the rate

structure, it will assign a "markup" to each element. May we assume the following to be the result of such a determination by the Commission:

	Cost per element	Markup Applied to Cost	Maximum Rate Factor
1. Terminal cost per carload.....	\$60.00	50%	\$90.00
2. Terminal cost per cwt.....	0.005	900%	0.05
3. Line haul cost per car mile.....	0.10	100%	0.20
4. Line haul cost per cwt./mile.....	0.0002	300%	0.0008

52. While we have outlined the detail here, we emphasize that the Commission would need to publish only the figures shown in the maximum rate factor column.

Example A—500 mile haul 30,000 lb. load (300 cwt.)

(1) Description	(2) Units	(3) Cost per unit	(4) Cost per car	(5) Maximum Rate Factor	(6) Maximum Rate (2) × (5)
Carload.....	1	\$ 60.00	\$ 60.00	\$ 90.00	\$ 90.00
Cwt.....	300	.005	1.50	.05	15.00
Car Mile.....	500	.10	50.00	.20	100.00
Cwt/mile.....	150,000	.0002	30.00	.0008	120.00
Totals.....			\$ 141.50		\$ 325.00

Example B—1,000 mile haul, 30,000 lb. load (300 cwt.)

Carload.....	1	\$ 60.00	\$ 60.00	\$ 90.00	\$ 90.00
Cwt.....	300	.005	1.50	.05	15.00
Car Mile.....	1,000	.10	100.00	.20	200.00
Cwt/mile.....	300,000	.0002	60.00	.0008	240.00
Totals.....			\$ 221.50		\$ 545.00

Example C—500 mile haul, 100,000 lb. load (1,000 cwt.)

Carload.....	1	\$ 60.00	\$ 60.00	\$ 90.00	\$ 90.00
Cwt.....	1,000	.005	5.00	.05	50.00
Car Mile.....	500	.10	50.00	.20	100.00
Cwt/mile.....	500,000	.0002	100.00	.0008	400.00
Totals.....			\$ 215.00		\$ 640.00

Example D—1,000 mile haul, 100,000 lb. load (1,000 cwt.)

Carload.....	1	\$ 60.00	\$ 60.00	\$ 90.00	\$ 90.00
Cwt.....	1,000	.005	5.00	.05	50.00
Car Mile.....	1,000	.10	100.00	.20	200.00
Cwt/mile.....	100,000	.0002	200.00	.0008	800.00
Totals.....			\$ 365.00		\$ 1,140.00

## CONCLUSION

53. This completes the detailed presentation we intend to place before the Committee. Before closing we wish to emphasize to you our conviction that the two main points of our submission merit detailed consideration.

54. We are convinced that the protection of the individual shipper requires the retention in Bill C-231 of those sections of the present Act which guard against unjust discrimination and undue preference. Surely Parliament, in delegating its responsibilities to the new Commission and in permitting a far wider

degree of competition in transportation must make doubly sure that the necessary protection for the individual shippers, industries or regions is maintained.

55. The retention of these safeguards will not interfere with the working of competition in determining the vast majority of rates, and will provide the necessary recourse for the individual shipper.

56. We have advanced for your consideration a maximum rate formula which we believe offers many advantages. It is a departure from previous methods of setting rates, but we earnestly hope that this will not deter you from giving it careful examination.

Approved by:

THE TRANSPORTATION BUREAU, October 31, 1966

THE COUNCIL, November 8, 1966

#### Appendix A-29A

#### MOTION PASSED BY THE EXECUTIVE COMMITTEE OF THE CANADIAN TRANSPORTATION RESEARCH FORUM

AT ITS MEETING IN MONTREAL ON OCTOBER 24, 1966

WHEREAS, the Canadian Transportation Research Forum is an association of interested persons in academic life, government service, business logistics and the various modes of transportation in Canada;

WHEREAS, the Forum has for its purpose to promote the development of research in transportation and related fields;

WHEREAS, the Forum has consistently encouraged research into factors relating to transportation—in its various modes—in Canada;

NOW, THEREFORE, BE IT RESOLVED, that the Canadian Transportation Research Forum endorses the government's recognition that the undertaking of studies and research of all modes of transport in Canada shall be a major duty of the Canadian Transport Commission.

A. E. Rickards,  
*Secretary.*



**Appendix A-30**  
**SUBMISSION**  
by  
**THE MINING ASSOCIATION OF CANADA**  
to the  
**HOUSE OF COMMONS STANDING COMMITTEE**  
**ON TRANSPORT AND COMMUNICATIONS**  
**IN RESPECT OF**  
**BILL C-231**

The Mining Association of Canada appreciates the opportunity afforded it to resent on behalf of its member companies its views on Bill C-231, which you now have under consideration.

The Mining Association of Canada is a national organization, the membership of which is constituted by the great majority of the mining companies of this country responsible for the production of base metals, nickel, copper, lead and zinc, of uranium, iron ore, gold, silver and other precious metals, as well as certain industrial minerals, including asbestos and potash.

As an appendix to this submission a list of the member companies of this Association is attached. It will be noted that the Association membership is broadly representative of all segments of the mining industry other than coal.

The member companies of the Association account for about 90 per cent of Canada's total metal and mineral production, which in 1965 amounted to approximately \$3 billion.

Railway transportation is a matter of particular importance to mining companies. Many mines operate in parts of the country where no alternative form of transportation is available and are, therefore, wholly dependent on the railways for getting their products to market and for receiving incoming supplies.

In 1965, the products of mines (excluding coal) and primary mineral products accounted for 44.5 per cent of total revenue freight carried by railways in Canada.\*

Railway freight rates are a very important cost factor in the economics of mining operations. They can indeed be a crucial consideration in determining whether or not an ore deposit can be successfully mined. As regards mines already in operation, increases in transportation costs have the effect of shifting the break-even point between minable ore and waste rock. Maintenance of the lowest transportation costs is of primary importance to efficient mining operations. With some mineral products, transportation costs approximate 50 per cent or more of the total delivered price.

It is with these facts in mind that we wish to comment on some features of Bill C-231.

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\*Reference: Railway Freight Traffic, Catalogue No. 52-205, Annual Year Ended December 31, 1965 (Dominion Bureau of Statistics).

### 1. *General Comments*

The basic concept embodied in the National Transportation Policy declared in Clause 1 of the Bill is that competition between all the varying modes of transport is the best regulator or criterion for attaining an economic and efficient transportation system at lowest total cost. To further this concept the Bill proceeds to dismantle most of the structure of regulations and procedures which have heretofore governed the determination of railway tolls and charges and to free the railways to meet on their own terms the competition for traffic which they face from other carriers.

The Mining Association of Canada does not in principle quarrel with this basic concept. Its validity in practice, however, is based wholly upon the assumption that competition in fact exists and that it in fact operates in a more or less perfect manner which avoids distortion and the imposition of unfair disadvantages upon particular localities and particular shippers.

It would be naive to suggest that this type of competition exists or can be made to exist in the provision of transportation facilities generally in Canada today. Indeed the Bill itself makes no assumption in this respect, recognizing that the forces of "competition" cannot operate in circumstances where the railways have a monopoly of the traffic offered. Monopoly, by definition, prevents the existence of competition.

The concept of so-called "captive traffic" and the legislative provisions which may be enacted in respect of it are of vital concern to the members of The Mining Association of Canada. The products of the mines generally, perhaps to a greater degree than any other commodity, are by their very nature transportable only by rail. They are typically low-value bulk commodities which can only be economically shipped in large volume and at heavy loadings. In many cases their transport to treatment plants, export points or other destinations involves very long hauls. Much of the protection against exorbitant rates which our shipments have been afforded in the past, as for example by the operation of the Bridge Subsidy, are to be discarded under the provisions of the present Bill.

With the background of these general comments, we now wish to turn to particular aspects of the Bill which cause us concern.

### 2. *Unjust Discrimination and Undue Preference, and in particular repeal of Section 319 (3) of the Railway Act*

As far as freight traffic is concerned, Bill C-231 removes from the Railway Act all references to unjust discrimination, undue preference and just and reasonable rates.

It is presumed that this action is based on the assumption that rates which are established by free competition between the railways and the other modes of transport must by definition be just and reasonable and that the forces of competition in themselves will prevent unjust discrimination and undue preference.

We cannot bring ourselves to believe that such an assumption is realistic and valid. The whole history of rate-making demonstrates, in our submission, that even where some element of competition exists between various modes of transport, statutory protection for the shipper against unreasonable prejudice and discrimination is necessary. The removal of that protection simply invites the railways to introduce, where they consider it necessary or desirable, dis-

criminary practices and preferences which have hitherto been prohibited by law. To say this does not, and is not intended to, impute to the railways bad faith or other unworthy motives. It is simply likely to be the case that, in the face of their overall circumstances and in the absence of adequate statutory restrictions, the railways will feel compelled to introduce practices which are unreasonably preferential or prejudicial to particular shippers or to particular localities in the field of rates, car supply, car service, transit arrangements or other aspects of the shipment of their goods.

Nor is it necessary, in our submission, for the implementation of the competitive principle embodied in the Bill, to remove the present prohibitions against unjust discrimination and undue preferences. It is important to note that there has never been an outright prohibition against discrimination and preferences as such. It is only if the preference is "undue" or "unreasonable" or if the discrimination is "unjust" that the statutory prohibition has effect and it has been the function of the regulatory authority to determine the application of these limits in cases which have been brought before it.

It is our submission that the protection of shippers requires that provisions of this nature be retained and that the Canadian Transport Commission be empowered to deal with discriminatory practices of railway companies in a manner similar to that provided by proposed Section 381 (Clause 68 of Bill) in respect of telegraph and telephone tolls. We do not believe that the proposed Section 317 (Clause 44 of Bill) is in any way adequate for this purpose, firstly because the jurisdiction which it vests in the Commission does not appear to extend to the type of shipper's grievance which we have described, and secondly because of the probable difficulties in identifying the public interest affected, public interest being nowhere defined.

We therefore recommend:

- (a) that Section 319 (3) of the Railway Act be not repealed but be retained for the reasons indicated;
- (b) that it be provided that the establishment by the railways of volume rates shall not in itself be deemed to constitute an undue or unreasonable preference or advantage; and
- (c) that the Commission be vested with jurisdiction to deal with discriminatory practices by the railways in a manner similar to that provided by proposed Section 381 in respect of telegraph and telephone tolls.

### 3. *Maximum Rate Control—Proposed Section 336 (Clause 53)*

The Bill recognizes in this section that shippers which are captive to the railways, as is the case with many mining companies, must be protected against excessive rates for the movement of their goods. It is, however, our submission and our grave concern that a general formula such as is proposed, which fails to take into account the differing circumstances of the many classes and sources of shipments which are captive, will utterly fail to provide the protection which is sought. It is axiomatic to state that the factors which determine whether a particular rate is excessive in respect of one type of shipment may be totally different from the factors which may be relevant in respect of a different type of shipment. The question of whether a particular rate is excessive requires an examination of the facts of the par-



ticular case under review coupled with the exercise of judgment by an expert and independent tribunal unfettered by any rigid and unchangeable formula which is prescribed to be of general application. It is our urgent submission that no such formula should be incorporated into the statute. Jurisdiction for determining maximum rates for captive traffic should be vested in the Canadian Transport Commission where a fair hearing would be available.

Although we are thus opposed to the inclusion of any statutory formula of general application, the members of this Association are especially and most anxiously concerned with the implications of the particular formula which is now proposed. As far as the products of the mines are concerned, being generally bulk commodities requiring heavy car loadings, the weight of 30,000 lbs. per car which is the starting point for determining the variable costs of movement for purposes of the formula, is totally unrealistic. Virtually none of our products is normally shipped in weights which even approach the light loading of 30,000 lbs. Figures taken from the 1963 Waybill Analysis indicate that the average loaded weight of all Canadian freight traffic (excluding grain) is 82,000 lbs. per car. In the case of traffic moving under non-competitive commodity rates the average during the same year was over 100,000 lbs. per car. For the mining industry in particular, much heavier loadings up to and in excess of 140,000 lbs. are today becoming increasingly common. A formula which commences with a factor based on the variable costs of shipment at 30,000 lbs. per car will, in our submission, fail completely in its purpose of protecting from the burden of excessive and unreasonable rates shipments having the heavy loading characteristics just referred to.

Nor can we accept the proposition that a fixed assessment of 150 per cent over the variable costs of shipment at loadings of 30,000 lbs. is just and reasonable in relation to captive shipments of the products of the mines made at very much heavier loadings. It may be that a fixed assessment of this magnitude can be justified in relation to some high value commodities which are typically shipped at loadings in the 30,000 lbs. range. In relation to the heavy loadings of our products, however, the escalation of the 150 per cent to several times that percentage of the actual variable costs of movement at the weights shipped, makes the formula in our submission totally unreasonable. Nor does the modest degree of relief provided in paragraph (b) of subsection (5) of proposed section 336, whereby one-half of the difference in the variable costs of shipment between shipments of 30,000 lbs. and the weights actually shipped may be deducted from the fixed rate, alleviate in any significant degree the burdensome effect of the factors just referred to.

We recognize fully that cost of service, including a reasonable contribution to the overhead costs of the railways, is and should be one of the basic elements entering into the process of making and judging rates. The problem, however, from the rate-making and regulation point of view is to convert such costs into practical and usable terms. We are convinced that this cannot be done, in any manner which can effectively protect shippers who are captive to the railways, by rigid statutory provisions or the enactment of a fixed formula of general application. It can only be done, in our submission, through the jurisdiction of an independent tribunal which by applying judgment and experience can arrive at

a rate which is reasonable to both the shipper and the carrier. At least in the sphere of captive traffic, proper comparisons of rates by a body such as the proposed Transport Commission provide the most efficient and the most satisfactory method of determining the reasonableness of rates in particular circumstances.

If this method is to be rejected, we would find acceptable, as a less desirable alternative, determinations related to cost as contemplated by Section 336, if such determination were possible on a realistic and fair basis. This would mean that the rate would be based on the actual cost of moving the traffic and not on an artificial cost as now proposed. On this basis, the cost benefits accruing to the railways from this industry's present practice of heavy loading could be accurately identified and equitably shared. The contribution to overhead in excess of variable costs would also have to be reasonably related to the value of service and to the overall contribution in terms of total dollars which such volume movements make to railway revenue. The fixed factor of 150 per cent of variable costs at 30,000 lb. loadings is in our view totally unreasonable for shipments by this industry and is insupportable in terms of the whole history and experience of rate-making in both Canada and the United States.

As far as this Association is concerned, it is no answer to criticism of the proposed provisions to say that the maximum rate formula would not be taken advantage of because the railways' management are fair and reasonable people who negotiate and bargain in good faith. We have no reason to deny the reasonableness and fairness of the railways. However, the existence of the statutory formula, coupled with the pressures of competing carriers and the desirability of maximizing profits so as to avoid the need of public subsidy, will constitute an open invitation to the railways to keep rates at or near their maximum level. We do not believe that companies lacking special bargaining strength, either by virtue of location or diversification of operations, will derive any effective protection whatsoever from the provisions contained in section 336.

In concluding our remarks on the subject of maximum rate control we would like to comment briefly on the provisions of subsection (16) of section 336. This subsection provides that after a period of five years, the Commission shall investigate the operation of the maximum rate formula and shall make such recommendations to the Governor in Council as it considers desirable in the public interest. It is not unreasonable to assume that a period of three years might elapse between the commencement of its investigation by the Commission and the enactment of any statutory changes which it might recommend. This means that the statutory formula, once enacted, will likely remain in effect without any practical likelihood of change, for a period which could be as long as eight years. In our submission, if the formula were to operate in the manner which we fear, this is much too long a period for the possibility of relief to be postponed. We do not think it should be necessary to come to Parliament in order to make changes in freight rates. If this is made necessary, then the opportunity to make changes should not be unreasonably deferred.

We therefore respectfully urge:

- (a) that a fixed formula for the determination of maximum rates on captive traffic be not included in the Act; that, instead, jurisdiction to fix maximum rates on captive traffic be vested in the Canadian

Transport Commission; and that for this purpose subsection (1) of section 336 of Bill C-231 be amended to read as follows:

"336(1) A shipper of goods for which in respect of those goods there

is no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carriers may, if he is dissatisfied with the rate applicable to the carriage of those goods after negotiation with a rail carrier for an adjustment of the rate, apply to the Commission to fix a rate for the carriage of the goods; and the Commission after such investigation as it deems necessary, shall fix such a rate.";

- (b) that in keeping with the foregoing amendment subsections (2) and (3) and paragraph (b) of subsection (5) of section 336 be deleted and that such other consequential amendments to the section as may be appropriate be made;
- (c) that, in the alternative, if it is determined that a statutory formula is to be enacted for the purpose of determining maximum rates on captive traffic, the formula presently proposed be reconsidered and so amended as to provide reasonable protection to captive shippers against the imposition of unjust and unreasonable rates; and
- (d) that, in any event, provision be made for a review of the statutory provisions respecting maximum rates on captive traffic within the shortest time which is reasonably practicable so that the public may be assured that the effect in practice of the operation of those provisions may be considered and any desirable or necessary amendments enacted with reasonable despatch.

#### *4. Publication of Analyses of Railway Carload Costs*

Bill C-231 introduces for the first time in this country a completely cost-oriented structure for the purpose of determining railway freight rates. It follows of necessity that the level of rail carload unit costs becomes a factor of vital importance to shippers and carriers alike. In the United States, the Interstate Commerce Commission has for some years published an analysis, by broadly-prescribed territories, of rail carload unit costs, and it is urged that the Canadian Transport Commission be directed to examine the possibility of publishing an equivalent analysis for Canada.

It is recognized that circumstances in the two countries are not the same and that the railways in this country (limited effectively to two in number) may justifiably object to the publication of cost figures which could be identified by competing carriers with particular shipments of particular goods. We view this, however, as essentially a statistical problem and one which should not be ignored as being insoluble. The possibility should be seriously examined of developing a method of analysis of carload costs which, while not imposing an unfair burden on the railways, would nevertheless produce figures which would be meaningful and useful for shippers and others. Indeed it is only consistent with a cost-oriented rate structure that this be done.

In the field of captive, as distinct from competitive, traffic and the fixing of a maximum rate for such traffic under section 336, it is of course absolutely



essential that the variable costs which will enter into the determination of the rate be available to the shipper. Proceedings under these provisions will be of an adversary nature and it would be grossly unfair to the captive shipper if he were not entitled before the Commission to test and dispute the figures of costs put forward by the railways. We are disturbed by the fact that nowhere in the Bill is this fundamental principle of natural justice recognized and declared and we are fearful that the general prohibition against the publication of railway costs in proposed section 387C would be interpreted to frustrate this principle as it affects the captive shipper. We therefore respectfully urge that section 387C be amended to make clear that its provisions will not apply to prevent the disclosure to a captive shipper who has made application for the fixing of a maximum rate under section 336 of costs which are put forward by the railways as determining the rate fixed.

Respectfully submitted

on behalf of

THE MINING ASSOCIATION OF CANADA

#### THE MINING ASSOCIATION OF CANADA

#### MEMBER COMPANIES

NOVEMBER 1966

Aetna Investment Corporation Limited  
Algoma Steel Corporation Limited, The—Algoma Ore Division  
Alwinsal Potash of Canada Limited  
American Smelting and Refining Company—Buchans Unit  
Anaconda Company (Canada) Ltd., The  
Asbestos Corporation Limited  
Aunor Gold Mines Limited  
Barnat Mines, Limited  
Bell Asbestos Mines Ltd.  
Bethlehem Copper Corporation Ltd.  
Bralorne Pioneer Mines Limited  
Broulan Reef Mines, Limited  
Brunswick Mining and Smelting Corporation Limited  
Caland Ore Company, Limited  
Campbell Chibougamau Mines Ltd.  
Campbell Red Lake Mines Limited  
Canada Tungsten Mining Corporation Limited  
Canadian Dyno Mines Limited  
Canadian Exploration Limited  
Canadian Faraday Corporation Limited, The  
Canadian Johns-Manville Co., Limited  
Cassiar Asbestos Corporation Limited  
Coast Copper Company Limited  
Cochenour Willans Gold Mines, Limited  
Cominco Ltd.  
Craigmont Mines Limited

Denison Mines Limited  
Dickenson Mines Limited  
Discovery Mines Limited  
Dome Mines Limited  
Dominion Magnesium Limited  
East Malartic Mines, Limited  
East Sullivan Mines Limited  
Eldorado Mining and Refining Limited  
Falconbridge Nickel Mines Limited  
First Maritime Mining Corporation Limited  
Gaspé Copper Mines Limited  
Giant Yellowknife Mines Limited  
Granby Mining Company Limited, The  
Granduc Operating Company  
Gunnar Mining Limited  
Hallnor Mines, Limited  
Heath Steele Mines Limited  
Hilton Mines Ltd.  
Hollinger Consolidated Gold Mines, Limited  
Hudson Bay Mining and Smelting Co., Limited  
Industrial Minerals of Canada Limited  
International Minerals & Chemical Corporation (Canada) Limited  
International Nickel Company of Canada, Limited, The  
Iron Ore Company of Canada  
Kam-Kotia Mines Limited  
Kennco Explorations, (Canada) Limited  
Kerr Addison Mines Limited  
Labrador Mining and Exploration Company Limited  
Lake Asbestos of Quebec, Limited  
Lake Dufault Mines Limited  
Lake Shore Mines Limited  
Lamaque Mining Company Limited  
Leitch Gold Mines Limited  
Little Long Lac Gold Mines Limited  
Macassa Gold Mines, Limited  
MacLeod-Cockshutt Gold Mines, Limited  
Madsen Red Lake Gold Mines Limited  
Magnet Cove Barium Corporation  
Malartic Gold Fields (Quebec) Limited  
Manitou-Barvue Mines Limited  
Marbridge Mines Limited  
Mastodon-Highland Bell Mines Limited  
Mattagami Lake Mines Limited  
McIntyre Porcupine Mines Limited  
New Calumet Mines Limited  
Newmont Mining Corporation of Canada Limited  
Noranda Mines Limited  
Normetal Mining Corporation, Limited  
North Coldstream Mines Limited  
O'Brien Gold Mines, Limited

Openmiska Copper Mines (Quebec) Limited  
Orchan Mines Limited  
Pamour Porcupine Mines, Limited  
Patino Mining Corporation, The  
Pine Point Mines Limited  
Preston Mines Limited  
Quebec Cartier Mining Company  
Quebec Iron and Titanium Corporation  
Quemont Mining Corporation, Limited  
Rayrock Mines Limited  
Renabie Mines, Limited  
Rio Algom Mines Limited  
Rycon Mines Limited  
Sherman Mine  
Sherritt Gordon Mines Limited  
Sigma Mines (Quebec) Limited  
Steep Rock Iron Mines Limited  
Sullivan Consolidated Mines Limited  
Sunro Mines Limited  
United Keno Hill Mines Limited  
Upper Canada Mines Limited  
Willroy Mines Limited  
Wright-Hargreaves Mines, Limited  
Yukon Consolidated Gold Corporation Limited, The

November 1966



**Appendix A-31**

OTTAWA, Ont., November 10, 1966

SUBMISSION OF THE MARITIMES TRANSPORTATION  
COMMISSION TO THE STANDING COMMITTEE  
ON TRANSPORT AND COMMUNICATIONS  
RESPECTING BILL C-231

(On behalf of the Provinces of Nova Scotia, New Brunswick, Prince Edward  
Island, Newfoundland and Labrador)

*Introduction:*

The Maritimes Transportation Commission welcomes this opportunity to appear before the Standing Committee on Transport and Communications in order to present its views on Bill C-231. The Commission is a body authorized and supported by the Governments of the Provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador and affiliated with the Maritime Provinces Board of Trade (an association of over 125 local Boards of Trade and Chambers of Commerce throughout the region). The Commission policy is decided by a Board of Directors who are appointed partly by the governments and partly by the Board of Trade from among prominent business and professional men of the region. This submission has the expressed approval and support of each of the Premiers of the Atlantic Provinces.

*Review of Atlantic Provinces Position Re Bill C-120:*

The Atlantic Provinces' interest in transportation is one of long standing. These provinces have appeared on numerous occasions before regulatory bodies, fact finding Commissions and Parliamentary Committees urging the adoption of policies designed to improve transportation services and reduce transportation costs for the citizens of the Atlantic area of Canada. In fact, the Atlantic Provinces were the only provinces which appeared before the Standing Committee on Railways, Canals and Telegraph Lines in 1965 when the subject matter of Bill C-120 was examined by that Committee. In its appearance on March 30, 1965 the Maritimes Transportation Commission sought on behalf of the Atlantic Provinces an amendment to the Bill which would, in effect, continue the freeze on non-competitive class and commodity rail rates now applying from, to and within the Atlantic Provinces until such time as the "... special examination into the problems relating to Maritime transportation and the Maritime Freight Rates Act ... was conducted, completed and acted upon by the Government of Canada" and the Commission is indeed grateful that its submission in that respect has been met with a minor exception which is covered in a later portion of this brief.

In its submission in 1965, the Commission attempted to show that National Policy respecting transportation has been historically to provide for a lower level

of rates for the Atlantic Provinces than elsewhere in Canada—rates which were never intended to reflect the real cost of transportation. This lower level of rates was first expressed in the Intercolonial Railway rate structure. Following a temporary abandonment of this policy in the period 1912-1927, the principle of a lower level of rates—rates not reflecting the real cost of transportation—was reestablished in statutory form by the enactment of the Maritime Freight Rates Act in 1927. In 1951 when the “national freight rates policy” of Canada was declared by amendment to the Railway Act (Section 336), the Government of Canada once again provided an exception to such national transportation policy insofar as the Atlantic Provinces were concerned and the four Provinces were exempted from the so-called “equalized” scale of freight rates.

That submission attempted to show that with the rise of truck competition in Central Canada and post-war spiralling railway costs, the Maritime Freight Rates Act—while still providing reductions in rail rates by virtue of Government subsidies—has become less and less able to meet its objective. The relationship between the transportation costs of shippers in Central Canada and shippers in the Atlantic Provinces had drastically altered in favour of the former to the detriment of the latter. The Commission submitted that the development of competition in other parts of Canada and the present freedom of the railways to make rate adjustments to meet such competition without corresponding adjustments in Maritime rates had been a major factor contributing to the worsening position of the Atlantic Provinces in relation to the rest of Canada. Furthermore, it was indicated that while the Maritime Freight Rates Act was not to be repealed in whole or in part—nor is it to be repealed by Bill C-231—the position of the Atlantic Provinces had worsened in relation to the rest of Canada in the years since the Act was passed, despite the fact that no part of the Act had been repealed. The Atlantic Provinces saw that the increased emphasis being placed upon railway costs as a basis for rate making would provide no solution to the present situation in which the Atlantic Provinces find themselves since distance would be once again emphasized in railway rates to, from and within the Atlantic Provinces in direct conflict with Government policy which, since Confederation, had de-emphasized distance in transportation costs for the Atlantic Provinces.

In summary the Commission said:

“The position of the Atlantic Provinces relative to the rest of Canada has worsened since the passage of the Maritime Freight Rates Act in 1927. The experience of the past coupled with discernible trends points to neither an improvement in the relative position of the Atlantic Provinces nor an arrest of the deterioration with the passage of Bill C-120. Instead, it is submitted that passage of the Bill would further aggravate the position of the Atlantic Provinces.”

In view of this the Atlantic Provinces took the position that if the region was to be subject to the new National Transportation Policy it must be coupled with simultaneous changes in National Policy respecting transportation for this part of Canada. The Commission welcomed the special examination into the problems relating to Atlantic Provinces transportation and the Maritime Freight Rates Act which the Government had announced it intended to undertake and stressed that such an examination must have as its primary objective the restoration, in this competitive transportation era, of the national policy respecting transportation

for this region of Canada that was originally expressed in the Intercolonial Railway rate structure and reaffirmed by the passage of the Maritime Freight Rates Act in 1927.

*Events Leading to Legislation:*

Because this legislation has its genesis in the report of The Royal Commission on Transportation (commonly called the MacPherson Commission) it may be appropriate to briefly review the events which lead to the appointment of that Commission and its major recommendations before commenting on the legislation itself.

In order to meet increasing cost of railway operations, the railways, following the end of World War II, sought and received the permission of the Board of Transport Commissioners to increase rail rates until the accumulative total had reached 157 per cent by December 1, 1958. While such increases had fallen more heavily on the long haul shipper than the short haul shipper, the incident of these increases had been further accentuated for the long haul shipper in as much as the railways had been unable to apply the full increase on short-hauls where truck competition has shown itself to be truly effective. Not only had the full increase not been applied to those areas but the railways had been required to publish rates below the level of rates in effect at the end of World War II in certain instances. As rail rates rose higher and higher, more and more traffic became susceptible to truck competition with the result that a lesser volume of traffic was being required to bear the burden of increased railway costs. In the proceedings before the Board of Transport Commissioners which led to the granting of the 17 per cent increase on December 1, 1958 the railways evidence showed that roughly one third of the railways traffic was being asked to bear the burden of three quarters of the increase.

Faced with this evidence the government announced that it intended to set up a suitable body to review (1) the general field of railway problems and (2) the freight rate problem of the long haul provinces. In the meantime the government made it clear that its policy was that no further increases would be allowed in railway non-competitive class and commodity rates. Furthermore, the December 1, 1958 increase of 17 per cent was ultimately "rolled back" by subsidy on such non-competitive rates to an 8 per cent increase.

These acts clearly indicated that government policy was intended to meet two interests, namely, the interest of the railways and the interest of the shippers, particularly those in the long haul provinces. This interest of the shippers was clearly defined in the terms of reference of the Royal Commission on Transportation as contained in Order-in-Council P.C. 1959-577 when the Commission was directed to consider and report upon:

- "(a) inequities in the freight rate structure, their incidence upon the various regions of Canada and the legislative and other changes that can and should be made, in furtherance of national economic policy, to remove or alleviate such inequities;
- (b) the obligations and limitations imposed upon railways by law for reasons of public policy, and what can and should be done to ensure a more equitable distribution of any burden which may be found to result therefrom;"



While the Commission found that competition between the railways and other forms of transport was increasing it also found that there was evidence of a significant degree of monopoly in many areas and for many types of traffic. While recommending greater freedom for the railways in the respect of the rationalization of railway plant and the discontinuance of uneconomic services, the Commission recommended that in relaxing rate regulation governing the railways a mechanism should be maintained whereby shippers who were dissatisfied with the level of the rate charged them by the railway would have the right to ask for the protection of a maximum rate. Shippers seeking such protection became captive by choice. It cannot be stressed too strongly that the term "captive" as used by the MacPherson Commission meant captive by choice not captive by circumstance. This is abundantly clear from the following quotation from the MacPherson Report:

"The decision to seek captive status must rest with the shipper. His reason for initiating the action will be dissatisfaction with the rate he is forced to pay."<sup>1</sup>

Again the Commission referred to monopoly in these words:

"This Commission believes that the average degree of monopoly which the railways have today is not itself significant and would not itself justify elaborate and expensive rate regulating machinery. Nevertheless we found evidence that for some rail movements the rates were many times higher than costs, indicating that a significant degree of monopoly still exists in at least a few commodity areas. *Some evidence of the substantial variations in the degree of monopoly is provided by the very uneven incidence of freight rate increases in the postwar period.* Railways have found it possible to implement much larger percentage rate increases on some movements than on others. *It was conceded in evidence before us by witnesses for the Canadian National Railways that there remain commodity movements for which the railway has a significant degree of monopoly.* There is every reason to believe that similar situations exist with the Canadian Pacific Railway Company."<sup>2</sup> (Emphasis supplied)

These points are stressed at this time merely to indicate that the MacPherson Commission did find areas of significant monopoly and that its definition of a captive shipper differs greatly from that found in Bill C-231.

#### *National Transportation Policy:*

Clause 1, Section 1 of Bill C-231 sets out the objective of National Transportation Policy for Canada. The MacPherson Commission perhaps for the first time drew a clear distinction between National Transportation Policy and National or Public Policy. Its report defined the objective of National Transportation Policy to be to ensure that the movement of Canadian goods and people is effected in a manner which utilizes the fewest economic and human resources.

The Commission recognized that National Policy objectives for economic development, national unity, social welfare or for any other reason often required the use of transportation to achieve these objectives. Furthermore, it

<sup>1</sup> Royal Commission on Transportation, December 1961, Volume 2, Page 104.

<sup>2</sup> Ibid., Page 94.

found nothing wrong with the use of transportation to achieve such objectives provided, of course, that the carrier was suitably recompensed for the resources, facilities and services that it was required to provide as an imposed national or public duty.

Because transportation has played and must continue to play such an important part in the economic development and unity of Canada, national policy objectives have been and will continue to be met through the use of transportation. Transportation played an important role in the birth of Canada and it also forms part of the confederation agreements between Prince Edward Island and Canada and between Newfoundland and Canada. As such, desirable as the National Transportation Policy may be, it must always be subject to the constitutional requirements that, for example, require the maintenance of ferry services to connect Newfoundland and Prince Edward Island to the mainland whether or not they bear a fair portion of the real cost of the resources, facilities and services provided at public expense.

Likewise, shippers subject to rail rates issued under the Maritime Freight Rates Act are not required to bear the same portion of the real costs of the resources, facilities and services provided at public expense that the objectives of Bill C-231 set out in Clause 1 would dictate, since by that statute these rates are required to be held at a lower level. In the case of Newfoundland where operating conditions and terrain result in high railway operating costs, the Terms of Union as interpreted by the Board of Transport Commissioners (Order No. 75923), require that the traffic moving over that line is not necessarily to bear its fair portion of the costs of the resources, facilities, and services provided at public expense. Or in Western Canada, the Crow's Nest Pass Grain rates are by statute held at a level lower than the free play of business competition would dictate. Again, for National Policy purposes the Seaway tolls remain at a level which does not cover a fair portion of the real costs of resources, facilities and services provided at public expense.

To ensure that there will be no conflict between the National Transportation Policy objectives of Bill C-231 and Constitutional, Statutory and National Policy requirements, the Atlantic Provinces recommend that Section 1, Subsection (b) should be amended by adding the words "except as may otherwise be necessary for constitutional, statutory or national policy purposes" after the word "expense."

Clause 1 of Bill C-231 over-emphasizes the need for greater freedom of the railways to fix rates. Surely the objectives of National Transportation Policy must be to serve the needs of the carriers themselves. To an extent the interest of public using all modes of transport may be best served by the free play of competition. Nevertheless, as the MacPherson Commission recognizes, shippers must be protected against excessive charges in areas of significant monopoly. Such protection will only be partial, however, unless shippers are also protected against unjustly discriminatory pricing practices by the railways. Because of their economic size and power the railways can, unless adequate safe guards are provided in the legislation, be the final arbiters as to whether or not an industry may reach a particular market. In a cost oriented rate structure such as is envisaged by this Bill, it seems obvious that shippers must continue to be concerned not only with the level of rates in relation to actual cost of carriage but also with the relationship between rates. The Atlantic Provinces recommend

therefore that Clause 1, Subsection (a) be amended by adding after the word "transport" the words "provided always that shippers and receivers will be protected against unjustly discriminatory practices either in tolls or otherwise."

*Canadian Transport Commission:*

Among the recommendations of the MacPherson Commission was the creation of a non-regulatory National Transportation Advisory Council. In the words of the Commission, "freed of regulatory responsibility and able to judge and assess the impact and effect of the decision of all transport regulatory agencies, and empowered to confer and consult with all interested parties (the regulating and the regulated) at all levels of Government, this (National Transportation Advisory) Council can recommend broad policies through the Minister of Transport." Other important functions of the Council as seen by the Royal Commission on Transport were to study the "present disposition and future needs of public investment in transportation facilities and to act as a forum for the discussion of transportation problems."

The Atlantic Provinces believe that there is a need for some coordination in transportation policy in Canada. Again, in the words of the MacPherson Commission "there exists no where below the cabinet level in Canada any organization or advisory body sufficiently broadly based to undertake the task of continually developing goals for National Transportation Policy or a broad outline of measures to achieve them." The formation of the Canadian Transport Commission through the amalgamation of the existing regulatory boards with the powers to regulate and responsibilities for research is the vehicle through which this particular recommendation of the MacPherson Commission is to be met.

The Atlantic Provinces believe that in the New Commission with responsibilities for both regulation and research there is a danger that the research function may be confused with and placed secondary to the regulating function. Nevertheless, with the powers given to the Canadian Transport Commission, if exercised diligently and with the support of all levels of Government and the transportation industry, it can and should fulfill a definite need in Canada.

*Extra Provincial Motor Vehicle Transport:*

The Atlantic Provinces realize that it is not the Government's intention to bring the extra provincial motor vehicle transport under the Canadian Transport Commission unless requested by the Provinces or unless the existing regulatory machinery is found to be defective at some future date.

The Atlantic Provinces believe that an economic and efficient Motor Vehicle Transport system requires greater uniformity in Motor Vehicle Transport regulations both for extra-provincial and intra-provincial undertakings. While some degree of uniformity has developed, the Atlantic Provinces would hope that a greater measure of uniformity in motor vehicle regulations may be achieved in the years ahead through co-operation between the Provinces themselves without the necessity of Federal Control.

*Special Appeal and Investigation:*

Clause 44, Section 317 of Bill C-231 sets up a procedure which in the words of the Bill's explanatory note "would require a public inquiry to be held where the public interest may be prejudicially affected by the acts or omissions of



railway companies or as a result of the new freedom in rate making." Bill C-231 removes from the Railway Act all reference to unjust discrimination, undue preference and just and reasonable rates. In effect, the railways will be permitted to discriminate against freight shippers legally between the maximum and minimum level of rates specified in the Bill. Such a drastic change in railway regulation carries serious implications for any industry for which transportation costs are a substantial percentage of production costs or, for industries which are effectively captive in the economic sense to rail transport. Canadian railways could become the arbiters of industrial location without adequate machinery to secure the necessary remedy.

The Atlantic Provinces believe that the substance of the principle section of the present Railway Act dealing with unjust discrimination should be retained and that any shipper who believes his business has been prejudicially affected by any act of the railway should be allowed the right to appeal the act, omission, or result to the Commission. The Atlantic Provinces believe that the limitation placed upon the Commission in Section 317(2) (a) of Bill C-231 would remove except in isolated instances a shipper's right to seek redress from the Commission.

The Atlantic Provinces propose the following amendments to Clause 44, Section 317:

Section (1) should be amended to read as follows:

317 (1) Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the public interest in respect of tolls or conditions of carriage of traffic, or prejudicially affects his business or places it at an unfair disadvantage, may apply to the Commission for leave to appeal the act, omission or result and the Commission, if it is satisfied that a prima facie case has been made, may grant leave to appeal and may make such investigation of the act, omission or result as in its opinion may be warranted.

Section 317 (2) should be deleted in its entirety so that Section 317 (2) would read as follows:

In conducting an investigation under this section the Commission shall have regard to all considerations that appear to it to be relevant including whether control by, or the interests of a railway company in, another form of transportation service, or control of a railway company by, or the interest in the railway company of, any other transportation service may be involved.

Section 317 (3) would require amendments to bring it into agreement with the changes proposed in Section 317 (1) and 317 (2).

*Power of Canadian Transport Commission to suspend tolls:*

Clause 52, Section 333 of Bill C-231 eliminates from the proposed Canadian Transport Commission the power to suspend or postpone tolls. This power has been in the hands of the present Board of Transport Commissioners and it has not exercised this power unduly, using it only when it was convinced that the facts of the case justified suspending or postponing the effective date of the tolls.

Adjudication of a complaint respecting tolls is not always something that can be resolved promptly especially within the time between the filing date and the effective date of the tariff which, under the Bill, is being reduced from thirty days to ten days. Unless the Commission is given power to award reparations to the aggrieved shipper—and Bill C-231 does not provide such power—Section 333(4) should continue to provide the Canadian Transport Commission with power to suspend or postpone tolls.

#### *Compensatory Freight Rates:*

Clause 53, Section 334(2) provides that a freight rate shall be deemed to be compensatory when it exceeds the variable cost of the movement of traffic concerned as determined by the Commission. The Atlantic Provinces believe that there may arise at some future time the question of whether a freight rate on which a subsidy is paid is compensatory within the meaning of Section 334(2) and for the sake of clarity it is recommended that the section should be amended to clearly indicate that the freight rate shall be deemed to be compensatory when it, including any subsidy paid in respect of such rate, exceeds the variable cost of the movement of the traffic concerned as determined by the Commission.

#### *Exclusion of Select Territory Rates for Two Years:*

Section 335 provides that (a) rates from, to or within the select territory as defined in the Maritime Freight Rates Act which were subject to the Freight Rates Reduction Act or (b) rates which have since been filed with the Board of Transport Commissioners and would have met the requirements of that Act, shall continue in effect notwithstanding anything in that Act or any other Act for a period of two years after the coming into force of Bill C-231. The Atlantic Provinces believe that it was the intention of the Government to provide that all rates from, to or within the Atlantic Provinces which are in the non-competitive class or commodity category should be covered by this Section. Through a technicality this is not the case and non-competitive commodity rates on Lumber and Coal and Coke from the so-called select territory to points outside the select territory and on Coal and Coke to points within select territory are not covered by Section 335.

In the case of Coal and Coke such rates were increased by a flat cents per ton as were all Coal and Coke rates throughout Canada rather than the 17 per cent increase on December 1, 1958 and consequently the Freight Rates Reduction Act did not apply to such rates. In the case of Lumber the 17 per cent increase of December 1, 1958 was withdrawn by the railways presumably in order to avoid a charge of unjust discrimination under the Railway Act and consequently these rates too were not subject to the Freight Rates Reduction Act.

In order to provide the protection for Atlantic Provinces rates which it is believed this Section was intended to provide, Section 335(1) should be amended by adding to it subsection (c) reading as follows:

- (c) is published in one of the following tariffs, supplements thereto or reissue thereof:

CNRys. Tariff CF 223-2, CTC (F) No. E. 4063, Section 1

CNRys. Tariff CF 227-2, CTC (F) No. E. 4097, Section 1

CNRys. Tariff CF 298, CTC (F) No. E. 1920

CPRy. Tariff E. 820-B, CTC (F) No. E. 5317, Section 1

CNRys. Tariff C.C. 250-1, CTC (F) No. E. 4073

CNRys. Tariff C.C. 117-4, CTC (F) No. E. 4132

CPRy. Tariff E. 1360-B, CTC (F) No. E. 5181, Item 900, 940, 1000 and 1120

*Effects of Bill On Atlantic Ports:*

The Maritimes Transportation Commission is concerned that the passage of Bill C-231 will have an adverse effect on port traffic via the Atlantic ports of Halifax, N.S. and Saint John, N.B. These ports are already struggling to retain their fair share of Canada's export and import trade.

The Atlantic ports are located at considerable distances—distances much greater than their competing ports—from their main hinterlands. Until such time as the government policies can develop the economy of the Atlantic Provinces so that Atlantic ports can be assured of sufficient "local" traffic to ensure their economic viability, they will continue to depend upon the export and import trade of the distant hinterlands of Central and Western Canada and the United States. Under the cost oriented rate structure of Bill C-231, the Atlantic Ports can be expected to be placed at a further disadvantage in relation to closer ports.

At about the turn of the century export and import traffic was provided with a scale of rates which became known as the port parity rate structure. This rate structure provided a parity of rates on export and import traffic moving to and from United States and Canadian North Atlantic ports, Norfolk, Va. and north thereof, or rates differentially related to the rates via one or more of the parity ports. What in effect this rate structure means was that the export and import rates to or from, say, Toronto, Ont. via Halifax, N.S. or Saint John, N.B. are the same as via New York, N.Y. or Portland, Me. despite the fact that the Canadian Atlantic ports are 300-600 miles further from Toronto than is New York.

While the parity rate structure arose largely by agreement among the United States railroads, and was extended to Canada, it is worthy to note that Parliament deemed it necessary to require several Canadian railways to adhere to this parity rate structure as a matter of law. Examples of this requirement are as follows:

Section 42 of the Agreement with the Grand Trunk Pacific Railway Company in 1903 provided: "...the through rate on export traffic, from the point of origin to the point of destination, shall at no time be greater via Canadian ports than via United States ports."

Section 13, Chapter 6, Acts of 1911, Re the Canadian Northern Ontario Railway Company provided: "...the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports."

Chapter 20, Acts of 1914, re the Canadian Northern Railway System, provided: "...the through rate on export traffic from the point of origin to the point of destination shall not be greater via Canadian ports than it would be via United States ports; ...and that the Canadian Northern and the several constituent and subsidiary companies shall not in any manner within its power or control directly or indirectly advise or encourage the



transportation of any such freight by routes other than those above provided."

The Maritimes Transportation Commission is concerned that under the cost oriented rate structure of Bill C-231 the Atlantic ports will be placed at a disadvantage in relation to closer ports both in Canada and the United States. Because of the greater distances involved to Canadian Atlantic ports, railway costs can be expected to be higher than to closer ports. As an indication Canadian National Railways estimated before the Royal Commission on Transportation that for the traffic it handled through Atlantic Ports in 1957 (1,049,000 tons) it incurred an additional operating expense of \$2½ million over the operating expenses it assumes it would have incurred had the traffic been handled via Portland, Me. On a broad average then in this example the railway's operating costs—the type of costs on which railway rates will be predicated with the passage of Bill C-231—are approximately 12 cents per 100 lbs. Lower via Portland than via the Atlantic Ports. Thus, in situations where the railways have a choice to make as to what tariff action should be taken to increase their net revenue the higher operating cost routes via the Atlantic Ports are certain to be the losers unless the railways have before them a clear statement that it is a continuing policy of the Government of Canada, notwithstanding Bill C-231, that rates via Canadian ports for export and import traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports.

#### *Passenger Trains and Commuter Trains:*

Commuter Trains are excluded from the subsidy provisions of Section 314I and 314J of the Bill. In addition Passenger Trains deficits are covered by subsidy only to the extent of 80 per cent of any losses determined by the Commission. In addition, railway management may conclude that it is necessary to maintain deficit passenger operations at some future date. One of the main objectives of the MacPherson Commission recommendations was to lift the burden of any deficit services from freight shippers. The Atlantic Provinces would, therefore, recommend that appropriate amendments be made to ensure that the deficits of Commuter Trains and Passenger Trains are not reflected in variable costs for the purposes of maximum freight rate calculations under Bill C-231.

#### *Maximum Rate Control and Related Sections:*

The Atlantic Provinces regret that the committee was unable to have placed before it cost data which would enable it to assess the effect of the Bill upon (a) the railway revenue position and (b) the maximum level of rates that would be available to shippers in relation to existing rates. Without such information it is not possible for the Atlantic Provinces to offer constructive amendments to Section 336 and related Sections. Nevertheless it is hoped that the Commission can assist the Committee in its consideration of this important aspect of the Bill through a separate brief to be submitted shortly.

All of which is respectfully submitted.

November 10, 1966

## LIST OF SECTIONS TO WHICH AMENDMENTS ARE PROPOSED

SECTION	AMENDMENT PROPOSED	PAGE
1 (a)	Amend to add words "provided always that shippers and receivers will be protected against unjustly discriminatory practices either in tolls or otherwise."	7
1 (b)	Amend to add words "except as may otherwise be necessary for constitutional, statutory or national policy purposes."	6
317 (1)	Rewording required to extend the right of appeal and provide for investigation of any act or omission by a railway company which prejudicially affects a shipper's business.	9
317 (2)	Delete provisions of paragraph (a)	9
333 (4)	Amend to provide Canadian Transport Commission with power to suspend or postpone tolls.	9
334 (2)	Amend to specifically provide that a freight rate shall be deemed to be compensatory when it, including any subsidy paid in respect of such rate, exceeds the variable cost.	9
335 (1)	Amend to include certain movements of Lumber and Forest Products and Coal and Coke under this Section.	10
336 (3)	Amend to exclude commuter and passenger train deficits from the determination of variable costs for the purposes of maximum rate calculations.	12





HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

# TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 38

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THURSDAY, NOVEMBER 17, 1966

FRIDAY, NOVEMBER 18, 1966

MONDAY, NOVEMBER 21, 1966

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Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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## WITNESSES:

*Representing the Government of Manitoba:* Honourable S. Spivak, Minister of Industry and Commerce; Mr. A. V. Mauro, Q.C.; Prof. S. Trechtenberg, Member, Executive Committee, Manitoba Transportation Commission; Mr. V. M. Stechishin, Member, Executive Committee, Manitoba Transportation Commission; D. A. Mitchell, Secretary, Manitoba Transportation Commission. *From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister of Transport; Mr. R. R. Cope, Director, Railway and Highway Branch; Mr. Jacques Fortier, Director of Legal Services and Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H.-Pit Lessard

and

Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Fawcett,  
Mr. Groos,  
Mr. Hopkins,  
Mr. Horner (*Acadia*),

Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Langlois (*Chicoutimi*),  
Mr. Legault,  
Mr. MacEwan,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. O'Keefe,

Mr. Olson,  
Mr. Pascoe,  
Mrs. Rideout,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam,  
Mr. Stafford—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

TUESDAY, November 15, 1966.

*Ordered*,—That the names of Messrs. Lessard and Jamieson be substituted for those of Messrs. Reid and Allmand on the Standing Committee on Transport and Communications.

WEDNESDAY, November 16, 1966.

*Ordered*,—That the names of Messrs. Fawcett and Schreyer be substituted for those of Messrs. Mather and Martin (*Timmins*) on the Standing Committee on Transport and Communications.

THURSDAY, November 17, 1966.

*Ordered*,—That the names of Messrs. Reid and Rock be substituted for those of Messrs. Langlois (*Chicoutimi*) and Stafford on the Standing Committee on Transport and Communications.

FRIDAY, November 18, 1966.

*Ordered*,—That the name of Mr. Comtois be substituted for that of Mr. Hopkins on the Standing Committee on Transport and Communications.

MONDAY, November 21, 1966.

*Ordered*,—That the name of Mr. Hopkins be substituted for that of Mr. Comtois on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*





## MINUTES OF PROCEEDINGS

THURSDAY, November 17, 1966.

(63)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Hopkins, Fawcett, Jamieson, Legault, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Pascoe, Sherman, Southam (20).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Mr. Reid, M.P.

*In attendance: Representing the Government of Manitoba:* Honourable S. Spivak, Minister of Industry and Commerce; Mr. A. V. Mauro, Q.C.; Prof. S. Trechtenberg, Member, Executive Committee, Manitoba Transportation Commission; Mr. V. M. Stechishin, Member, Executive Committee, Manitoba Transportation Commission; D. A. Mitchell, Secretary, Manitoba Transportation Commission; and Dr. Donald Armstrong, Economic Adviser to the Committee.

The Chairman tabled correspondence and briefs received from various organizations.

On motion of Mr. Southam, seconded by Mr. Andras,

*Resolved*,—That the letters from the Canadian Pool Car Operators Association Inc.; from Hudson Bay Route Association; the briefs of Canadian National Millers Association; the Port of Halifax Commission; and the Canadian Pulp and Paper Association be printed as appendices to this day's Minutes of Proceedings and Evidence (See appendices A-33, A-34, A-35, A-36 and A-37).

On motion of Mr. Cantelon, seconded by Mr. Andras,

*Resolved*,—That the brief of the Manitoba Government be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-32).

The Chairman introduced the witnesses and Mr. Mauro presented an oral summary of their brief.

The Minister of Transport commented on the brief.

The witnesses were examined.

On motion of Mr. Andras, seconded by Mr. McWilliam,

*Resolved*,—That Mr. Lessard be re-appointed Vice-Chairman of the Committee.

At 1.00 o'clock p.m., the meeting adjourned until 3.30 o'clock p.m., this date.

## AFTERNOON SITTING

(64)

The Standing Committee on Transport and Communications met this day at 3.30 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Fawcett, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Hopkins, Jamieson, Legault, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Pascoe, Reid, Rock, Schreyer, Sherman, Southam (23).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport.

*In attendance:* Same as at this morning's sitting.

Mr. Mauro made brief remarks on Mr. Pickersgill's statement.

The examination of the witnesses continued.

The Chairman, on behalf of the Committee, thanked the witnesses for their excellent brief and presentation.

On motion of Mr. Andras, seconded by Mr. Lessard,

*Resolved*,—That clause by clause consideration of Bill C-231 commence this date, with the proviso that any clause on which subsequent witnesses make representation to amend will be reconsidered at the request of any one member.

At 5.30 o'clock p.m., the meeting was adjourned until 8.00 o'clock p.m., this date.

## EVENING SITTING

(65)

The Standing Committee on Transport and Communications met *In Camera* this day at 8.05 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Hopkins, Fawcett, Jamieson, Legault, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Pascoe, Rock, Schreyer, Southam (21).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport.

*In attendance:* From the Department of Transport: Mr. J. R. Baldwin, Deputy Minister of Transport; Mr. R. R. Cope, Director, Railway and Highway Branch; Mr. Jacques Fortier, Director of Legal Services and Counsel and Dr. Donald Armstrong, Economic Adviser.

The Chairman tabled correspondence received from the B.C. Federation of Agriculture and the City of Brandon.

On motion of Mr. Andras, seconded by Mr. Cantelon,

*Resolved*,—That the correspondence from the B.C. Federation of Agriculture and the City of Brandon be printed as appendices to this day's Minutes of Proceedings and Evidence (See Appendices A-38 and A-39).



The Committee began its clause by clause consideration of Bill C-231.

Officials of the Department of Transport tabled suggested amendments to Bill C-231.

Clause 1 Stand

Clause 2 Carried

Clause 3 Carried as amended

Clause 4 Carried as amended

Clause 5 Carried

Clause 6 Carried

Clause 7 Carried as amended

Clause 8 Carried

Clause 9 Carried as amended

Clause 10 Carried

Clause 11 Deleted.

Renumbered clause 11 (old clause 12) sub-clause (3) added and clause carried as amended

Renumbered clause 12 (old clause 13) carried

Renumbered clause 13 (old clause 14) carried

Renumbered clause 14 (old clause 15) carried

Renumbered clause 15 (old clause 16) carried as amended

New clause 16 stand

Clause 17 carried on division as amended

New clause 18 carried

Renumbered clause 19 (old clause 18) carried as amended

Renumbered clause 20 (old clause 19) carried

Renumbered clause 21 (old clause 20) carried

At 10.00 o'clock p.m., the meeting was adjourned until 9.30 o'clock a.m., Friday, November 18, 1966.

R. V. Virr,  
*Clerk of the Committee.*

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FRIDAY, November 18, 1966.  
(66)

The Standing Committee on Transport and Communications met this day *In Camera* at 9.40 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Groos, Howe (*Wellington-Huron*), Hopkins, Jamieson, Legault, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Pascoe, Reid, Southam, Schreyer, Rock (20).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance: From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director, Railway and Highway Branch; Mr. Jacques Fortier, Director of Legal Services and Counsel.

The Committee resumed its clause by clause consideration of Bill C-231.

Part II	Renumbered clause 22 (old clause 21)	carried as amended
	Renumbered clause 23 (old clause 22)	carried
	Renumbered clause 24 (old clause 23)	carried
	Old clauses 24, 25, 26, 27, 28 deleted	carried
	New clause 25	carried
	New clause 26	carried
	New clause 27	carried
	Renumbered clause 28 (old clause 29)	carried
Part III	New clause 29 (old clause 30)	carried
	New clause 30	carried
	Clause 31	carried
	Clause 32	carried as amended
	Clause 33	carried as amended
	Clause 34	carried
	Clause 35	carried with amendment
Part IV	Clause 36	carried
	Clause 37	carried
Part V	Clause 38	carried
	Clause 39	deleted
	Renumbered clause 39 (old clause 40)	carried
	Renumbered clause 40 (old sub-section (1) clause 41)	carried
	Renumbered clause 41 (old sub-section (2) clause 41)	carried
	Clause 42	stand
	Clause 43	carried
	Clause 44	deleted
	New clause 44	carried
	Clause 45	stand
	Clause 46	stand
	Clause 47	stand
	Clause 48	carried
	Clause 49	carried as amended

At 10.55 o'clock a.m., the meeting adjourned until 2.00 o'clock p.m. this date.

## AFTERNOON SITTING

(67)

The Standing Committee on Transport and Communications met this date *in Camera* at 2.05 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Comtois, Cantelon, Deachman, Groos, Howe (*Wellington-Huron*), Jamieson, Legault, Lessard, Macaluso, McWilliam, Olson, Pascoe, Schreyer, Rock (17).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Dr. Donald Armstrong, Economic Advisor to the Committee.

*In attendance:* Same as this morning's sitting.

Continuing the clause by clause examination of Bill C-231.

Part VI Clause 80 carried as amended

"	81	carried
"	82	"
"	83	"
"	84	"
"	85	"
"	86	"
"	87	"
"	88	"
"	89	"
"	90	"
"	91	"
"	92	"

New clause 93 carried

Renumbered clause 94 (old clause 93) carried as amended

Schedule page 66 carried as amended

Schedule page 67 carried as amended

Schedule page 68 carried

Part V Clause 50 stand

"	51	"
"	52	"
"	53	"
"	54	carried
"	55	"
"	56	"
"	57	"
"	58	"
"	59	stand



- Clause 60 carried  
" 61 "  
" 62 carried  
" 63 deleted  
New clause 63 carried  
Clause 64 deleted  
New clause 64 carried  
Clause 65 carried as amended  
Clause 66 deleted  
New clause 66 carried  
Clause 67 carried  
Clause 68 carried  
" 69 carried  
" 70 stand  
" 71 carried  
" 72 carried  
" 73 carried  
" 74 carried  
" 75 carried as amended  
" 76 carried  
" 77 carried  
" 78 carried  
" 79 carried.

At 2.45 o'clock p.m., the meeting adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

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MONDAY, November 21, 1966.

(68)

The Standing Committee on Transport and Communications met this day *In Camera* at 3.30 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Fawcett, Groos, Horner (*Acadia*), Howe (*Wellington-Huron*), Jamieson, Legault, Lessard, Macaluso, McWilliam, Nowlan, O'Keefe, Olson, Pascoe, Schreyer, Rock, Southam (21).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Mr. Hopkins, M. P.

*In attendance: From the Department of Transport:* Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director, Railway and Highway Branch.

On motion of Mr. Horner, seconded by Mr. Lessard,

*Resolved*,—That the map “Plan of Prairie Rail Network Guaranteed to January 1st 1975” be held as an Exhibit and held with the Committee records (Identified as Exhibit A-13).

The Committee continued its clause by clause examination of Bill C-231.

Clause 42 carried as amended.

Clause 50 carried as amended.

At 5.45 o'clock p.m., the meeting was adjourned until 9.30 o'clock a.m., Tuesday, November 22.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

*(Recorded by Electronic Apparatus)*

THURSDAY, November 17, 1966.

The CHAIRMAN: Gentlemen, I see a quorum.

There is a letter here from the Canadian Pool Car Operators' Association Inc., dealing with a copy of a telegram referring to a matter brought up by the Canadian Trucking Association. I have also a short brief from the Canadian Pulp and Paper Association, and briefs from the Canadian National Millers' Association and the Port of Halifax Commission.

May I have a motion that these all be printed as appendices to our Minutes of Evidence and Proceedings of today's date?

Mr. SOUTHAM: I so move.

Mr. REID: I second the motion.

The CHAIRMAN: It is moved by Mr. Southam and seconded by Mr. Reid.

Motion agreed to.

There will be distributed to you today a summary of recommendations respecting this bill, which were asked for and prepared by the officials of the Department of Transport with a summary of all recommendations and all amendments.

There will also be distributed copies of Bill No. C-231 with the amendments inserted therein, and there will be other amendments as soon as the submission of the province of Manitoba is dealt with.

We are now going to hear the submission of the province of Manitoba. The witnesses are: to my immediate right, Mr. A. V. Mauro, counsel; Hon. S. Spivak, Minister of Industry and Commerce; Prof. S. Trechtenberg, Member Executive Committee, Manitoba Transportation Commission; Mr. V. M. Stechishin, Member Executive Committee, Manitoba Transportation Commission and Mr. D. A. Mitchell, Secretary, Manitoba Transportation Commission.

May I ask for a motion that the main brief of the province be printed as an appendix to our Minutes of Evidence and Proceedings today?

Mr. CANTELON: I so move.

Mr. REID: I second the motion.

The CHAIRMAN: It is moved by Mr. Cantelon and seconded by Mr. Reid.

Motion agreed to.

The CHAIRMAN: I have advised Mr. Mauro of the ruling of this Committee on not reading the whole brief, and he will just touch on the main highlights of it.

I believe the Hon. S. Spivak has some opening remarks, and then we will move on to Mr. Mauro.

Mr. CANTELON: Mr. Chairman, before we begin this is an extremely complex and extensive brief, and I think it is probably one of the most important with

which we will be presented. I hope the witnesses will give us an extensive treatment of it and not just a very cursory summary.

The CHAIRMAN: Mr. Cantelon, I do not know what your specific attitude has been relative to the reading of briefs, but I have discussed this with Mr. Mauro and I know he will keep that in mind. I know you will appreciate also that Mr. Mauro and the witnesses have to catch the 9 o'clock train for Montreal to get back to Manitoba, and therefore we want to go ahead.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, on that same line, this brief is so massive, so informative, and I have spent so much time on it that I think we should make a specific request to Mr. Mauro—and I mean that quite seriously.

I know that you are in a big hurry this morning, Mr. Chairman, but we are going to relax and pay a lot of attention to this brief.

The CHAIRMAN: Well, Mr. Bell, I am sure your good friend, Mr. Mauro, appreciates your very fine comments, but Dr. Armstrong has specifically analyzed each brief and we will proceed in this way.

Hon. Mr. SPIVAK (*Minister of Industry and Commerce*): Mr. Chairman and members of the Committee. I am here representing the province of Manitoba and the premier of the province.

I think it is fairly obvious to all of you, from the length of the brief, that we are concerned with the suggested national transportation act and have a general concern with the field of transportation. The growth of our province and the economy of our province are dependent on a national transportation policy which will in fact recognize regional differences and regional needs.

In presenting the brief to you today and asking our counsel to begin the presentation in a summary form to you today, I must highlight only the fact that we are concerned with this act, we feel it is vital to maintaining of the momentum of the economy of our province, and we hope that you will give due consideration to our suggestions and incorporate them in the changes which will be made in connection with Bill No. C-231.

Mr. A. V. MAURO, Q.C. (*Legal Counsel for the province of Manitoba*): Mr. Chairman, Mr. Pickersgill, members of the Committee, I will start off by making an apology to the French speaking members of the Committee—and the apology is sincere—that I was unable to have the brief translated into French because of the time factor involved. I hope, perhaps, the next time around, simply to do it in French and not have time to do it in English and balance off the unfortunate situation. I make no apology to the members of the Committee on the size of the brief. In the opinion of the province of Manitoba, although there may be certain pieces of legislation before this House that have a greater emotional impact, there is no piece of legislation before this House that is going to have a greater impact on the future economic development of the nation. Our approach to the submission that you have before you is sincerely one which we feel takes a national outlook, and the submission that we make and the recommendations that we make, although necessarily those made from the aspect of a province such as Manitoba, have, we think, implications and benefits for the entire country.

It is my intention to deal in expert fashion with the submission, and perhaps to start I should indicate a number of typographical errors and then go on to the submission itself.

At page 8, paragraph 20, in the first line of the paragraph there should not be a period after the word "Confederation". The first line should read: "As a condition of Confederation, the Dominion Government undertook to build the railway line". Then, you could delete, in the fourth line of the paragraph: "The Dominion Government undertook to build the Inter Colonial Railway".

At page 50, paragraph 123, simply delete the words "and control". There is duplication in that quotation. In the first line of paragraph 123 delete the words "and control".

At page 53, paragraph 130, in the item marked (i) at the bottom of the page, delete the words "at 30,000 pounds". That should now read "actual variable cost plus". Delete "at 30,000 pounds".

At page 56, paragraph 135, eight lines down, it should be "fair" not "fare". We became carried away with the subject we were dealing with.

At page 58, paragraph 138, the word is "summarize" not "sujmarize," although it had some meaning, I guess, in this context. It is just a misspelling.

I have one final correction on page 65, paragraph 159, the ninth line. The sentence should read "In other words, for each \$1.00 cost of money allowable to the CPR, the captive "shipper—" Insert the word "shipper". Those are the corrections.

If I may begin, the opening chapter of the submission deals with national transportation policy and we felt that it was essential to indicate the development of this policy in Canada for a consideration of the opening sections of the bill.

1. Bill No. C-231 is entitled "An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions". This is the first time, to our knowledge, that any legislation of the Federal Parliament defines national transportation policy.

We then set out Clause 1.

3. Since Bill C-231 is to be "enacted in accordance with and for the attainment of—these objectives" of national transportation policy as above enunciated, it is imperative, before proceeding to a consideration of the Bill, that we review national transportation policy in the context of its historical evolution and the findings and recommendations of the most recent Royal Commission on Transportation—the MacPherson Commission. The purpose of such a review is to assist the Committee in its consideration of the succeeding clauses of Bill C-231 by placing these provisions in their proper context.

4. National transportation policy in Canada has evolved as an integral element of national economic policy. While it would be presumptive to offer a single statement in definition of national economic policy, it may be summarized as a policy or plan, or as a series of policies or plans, the object of which is to secure the development of Canada for all Canadians. National economic policy emphasizes the utilization of our natural and human resources to improve the well-being of all Canadians in all regions of the country. National economic policy in Canada since Confederation has consistently been designed to foster and promote the development of the various regions for the benefit of the entire nation. It has never been



the intention that one area of the country should be preferred at the expense or exclusion of another area. This national policy can be best demonstrated by reference to the construction and operation of Canada's railways and the historic role which they have played in the furtherance of national economic policy.

#### *Role of Transportation in National Economic Policy*

6. In view of its importance, transportation has been closely interwoven with the economic, political and social life of the country throughout its history. From the earliest days of settlement, governments have taken an active part in providing transportation by water, highway and rail, and more recently by air and pipeline. In the process, a national transportation system has been built up by a combination of public and private initiative with various forms of government assistance.

7. The principal requirements for an effective national transportation system may be stated as follows:

- (a) It should permit access to markets by the most direct routes and by the most efficient means which the potential traffic will sustain.
- (b) It should provide that combination of transportation facilities which yield maximum economies to producers and consumers and reasonable returns on invested capital.

#### *Provision of Transportation Facilities in Canada*

8. Historically, the provision of transportation facilities was motivated by the desire to link together the former British North American colonies into a cohesive political and economic unit. The system reflects a deliberate effort to avoid the powerful forces tending to bring about an absorption of the several provinces into the economy of the United States. As a result, a fundamental and persistent problem has existed in the history of Canadian transportation. This problem is focused on the interplay of two divergent concepts: profit motivation as evidenced in commercial principle on the one hand; and the public policy objective of national unity on the other.

At paragraph 10:

10. The fear of economic and political annexation by the United States led the scattered colonies of British North America in the latter half of the nineteenth century to consider the formation of a larger and stronger economic and political unit. In these considerations, cheap, reliable, year-round transportation was an essential element.

"The decision to build the railway entirely through Canadian territory was of fundamental significance—This consideration turned the colonies to—ensure political independence through a union of their own and to seek strength and prosperity by a national economic integration based on an expanding inter regional trade. The pull to the south was strong. The establishment of an east-west integration would require bold and far-sighted policies of national development".

11. Prior to Confederation, the Grand Trunk Railway had become an important line, serving the people of both Canada and the United States.

After Confederation, the Intercolonial Railway was constructed with public funds to link the Maritime Provinces with the former Canadas in order to meet the political and economic requirements of the public policy of the new Dominion. A railway project of much greater magnitude and significance, an all-Canadian transcontinental line, was projected by the Government and completed by a private company, the Canadian Pacific Railway, with extensive public assistance.

12. In the early days of Confederation, national policy was concentrated mainly on fostering the political unity and economic integration of the newly united provinces. Both these objectives required the flow of trade and traffic in east-west channels and therefore necessitated the creation of transportation links between the different parts of the country. The central importance of transportation in Confederation is shown by two facts:

- (1) provision of rail transportation facilities was a condition of entry for both the Maritime Provinces and British Columbia;
- (2) the emphasis on the construction of an all-Canadian line built with substantial Government assistance.

13. Due to the distances which separate Canada's producing territories and consumer markets, development of the country's resources depended upon railway construction and low transportation charges to facilitate the flow of products to market. The people of Canada have given the aid necessary to procure adequate transportation facilities.

#### *Historical Development of National Economic Policy in Transportation*

14. The ultimate goal of the public policies of the various federal governments since Confederation was to maximize and equalize opportunities and benefits for all Canadians in all regions of the country.

We then discuss the early canals and public policy at paragraph 16 as follows:

During the period of major canal construction in Central Canada, the national objective was—

and this was the same objective that extended to other policies relative to transportation, namely:

—to divert traffic from the United States waterways to the St. Lawrence system.

We indicate there that to the end of March the total spent on the canal system in Central Canada was \$242 million, which was the original cost of construction; and that, in addition, there was the investment of \$322 million in the St. Lawrence seaway system.

17. Following Confederation, while waterways continued to play a strong supporting role in transportation, the construction of railways emerged as the major element in national policy.

We then go on to discuss some of the statements of the government of that time at paragraph 19 as follows:

*Confederation and the Intercolonial Railway*

19. Political union of British North America was designed to improve its credit position while railway construction would provide the economic basis for union.

20. As a condition of Confederation, the investment in the line reached a total of \$108,000,000 by 1916 for 1,450 miles of track. This outlay was due primarily to the circuitous route which was chosen to avoid crossing into the United States. The Dominion Government undertook to build the Intercolonial Railway. Construction of the Intercolonial made possible the introduction of a common tariff policy. As a source of revenue, the tariff helped to finance the railway and as a protective measure it helped to create traffic and direct it to the new line.

We then go on to discuss the Pacific Railway and national economic policy at paragraph 22 as follows:

22. A railway to join the Atlantic to the central provinces and a Pacific railway to incorporate Rupertsland and British Columbia were necessary to achieve the union of British North America. The Pacific railway was an even more complex and enormous undertaking than the Intercolonial. Acquisition of the Northwest and union with British Columbia had to be negotiated, then the longest railway of its time had to be built. Manitoba entered Confederation on the understanding that a railway would be built to connect it with the outside world. Its public lands, like those of the North-West Territory, were reserved for the purposes of the Dominion, that is, for homestead and railway land grants. When British Columbia entered the Dominion in 1871, the terms of union required the national government to build a railway to the Pacific. Railway construction was thus an integral part of national union and expansion.

23. This plan for national development and the role of the transcontinental railway in its implementation have been described in the Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book I, p. 28 as follows:

And I will read just the underlined portion:

This fact pointed to the second policy which was indeed an essential complement of the first. The public lands of the Northwest were to be used by the Dominion to promote railway expansion and rapid settlement. Land grants would provide the greater part of the public assistance required by the railways. The railways, in turn, would make the lands valuable and a free homestead system would attract a rush of settlers. The decisions to build an all-Canadian railway and to establish a vigorous Dominion land policy were basic national decisions which, together with the adoption of the protective tariff which was soon to follow, fixed the pattern of subsequent economic development in the Dominion."



At paragraph 25:

25. The line, privately owned and operated, was to be a national line built as part of a national policy to fulfil national purposes. The undertaking was large and the immediate potential traffic small. Prospects of profit on the new railway seemed unattractive. The Government offered generous inducements to the investors to undertake the venture. The benefits received by the company under the terms of the contract with the national government were

as set out in paragraph 26. Then in paragraph 27 we discuss the early freight rate policy:

27. The period from 1867 to 1896 was characterized by large public expenditures on transportation facilities in the form of subsidies, land grants, and other assistance by the national government. Not until 1879 was an attempt made by the Government to limit the rates charged by the railways, although under the British North America Act (Section 92, 10 (a)), the Dominion Government was given complete jurisdiction over inter-provincial railways. The main control on rates in Eastern Canada was competition from the canals and existing American railways. However, competition as a form of control of rates proved inadequate, for in many instances, areas in Eastern Canada were served by only one railway, while in other instances the railways, through co-operative arrangements, determined the level of freight rates, the charges for individual shipments, and the quality of service.

28. Public complaints about the level of freight rates in the 1870's led to legislation in 1879 which introduced moderate and indirect rate control by limiting the level of dividends.

We will be coming back to this subject of limiting dividends in our treatment of the maximum rate formula:

Under the Consolidated Railway Act (42 Victoria, Ch. 9, 17), power was given to the Governor-General-in-Council to limit rates to a level which would permit the railway companies dividends of not more than 15 per cent on capital expended on construction. This clause was dropped in the 1888 revision of the Act, but it was retained in the charter of the Canadian Pacific with the rate fixed at 10 per cent. These measures, however, failed to remove regional discrimination since the rates were higher in Western than in Central Canada due to the absence of rail and water competition in the West. It was not until the Crow's Nest Pass Agreement of 1897 that an attempt was made by Government to alleviate the burden occasioned by regional discrimination of rates in Western Canada.

29. The importance of rate regulation to the Province of Manitoba and the Northwest region was described by Professor Morton as follows:

"The reason for this was partly the geographic position of Manitoba. Its remoteness, however, was as accessible to American as to Canadian railways, and it might theoretically at least have expected to enjoy the benefits of competition. But another part of Canadian national policy, and particularly after 1879, was the maintenance of a protective tariff. The tariff, of course, operated to diminish the flow of

goods northward from the United States and so to diminish the competitive capacity of American railways to haul exports from Manitoba. The general effect was to make Manitoba and the Northwest, as the Prairie Provinces have remained, an area in which Canadian railways are sheltered from the competition of American railways. Equity thus demanded some regulation of railway rates to offset this consequence of national policy. Even more urgent was the national need to encourage a flow of wheat exports to market in order to pay for the national development of Canada." (9)

We then discuss the first attempts at rate regulation and the Crowsnest Pass Agreement.

I turn to paragraph 33:

33. The reduced rates on grain facilitated expansion of the agricultural economy of the Prairie region. The reduced rates on westbound shipments of. . .

and these were the two factors covered in the Crow's Nest Agreement of 1897—

—of commodities ensured the manufacturing industries of Eastern Canada of the dominant share in the growing markets of the expanding Western region. The Crow's Nest Pass Agreement was an application regionally of national economic policy from which Western Canada, the Canadian Pacific Railway and the country as a whole were to obtain substantial benefits.

34. By the turn of the 20th century settlement and wheat production in the West were expanding rapidly and large sums of foreign capital were available. The Dominion Government was eager to expand railway facilities throughout the country. During the railway debates of 1903, Sir Wilfred Laurier stated the Government's policy and stressed the need for immediate action on construction of the National Transcontinental Railway:

"...to provide immediate means whereby the products of those new settlers may find an exit to the ocean at the least possible cost, and whereby, likewise, a market may be found in this new region for those who toil in the forests, in the fields, in the mines, and in the shops of the older provinces. Such is our duty; it is immediate and imperative." (12)

I suggest that the same statements could be voiced today relative to the requirements of a transportation policy in Canada in 1966. At paragraph 37 at page 13:

37. The Government provided assistance to the Grand Trunk Pacific Railway Company in conformance with the national policy of encouraging the development of Canadian trade and the transportation of goods via all-Canadian channels. These conditions were stipulated in the agreement between the parties dated July 29, 1903. (14)

38. At the same time the Canadian Northern was endeavouring to expand its operations into a transcontinental system. By 1905 it owned almost 350 miles of track in eastern Canada while in the Prairies its track extended as far west as Edmonton. By 1915 the remaining sections between Ottawa and Port Arthur and Edmonton and Port Arthur were

completed. Throughout its history the Canadian Northern system was dependent upon public aid.

And we indicate that by 1916 this had totalled \$31.2 million from the federal government.

Paragraph 40:

40. From 1917 to 1923 the Dominion Government, through the process of receivership and ultimate financing, took over the operation of these privately-owned railways. In 1923, the publicly-owned railway properties, together with various subsidiary corporations, were formed into the Canadian National Railways system, under the control and direction of a President and Board of Directors appointed by the Governor-General-in-Council. Thus, the Federal Government, permanently committed to the provision of transportation facilities and bound financially in the construction of railways, has no alternative, in the face of the failure of private enterprise, but to take over the existing lines.

*"The maintenance of public credit and of railway service... were the considerations which lead to this great, and to a degree, involuntary extension of national railway policy to include the public ownership and operation of a vast national system.*

We go on to discuss the expansion during the 1920 to 1929 period, the freight rate regulation and national policy. Paragraph 44 reads:

44. In conformance with this national policy, the Federal Government, from time to time, has introduced measures designed to ease the high cost of transportation that has fallen on certain regions due to geographic location or to the absence of competition.

I would just refer to the quotation of the Minister of Railways at the top of page 16 because I think this gives the essence, on rationale, in this. It was, and I quote:

*"to give the Board of Railway Commissioners a free hand in the equalizing of rates throughout Canada in order that all parts of the country may be equally situated with others".*

And you will find, as you study the history of transportation and national policy, as a continuing theme throughout, this attempt to equalize the opportunities for the movement of commodities and people from the various regions of Canada. Paragraph 48 reads:

48. During the intervening years, highway improvement resulting in increased movement of freight by motor carrier, coupled with the deepening of the Welland Canal and the rebuilding of the locks, presented the railways with new competition. Central Canada and British Columbia have had the benefit of low freight rates by reason of their location or the development, at Government expense, of alternative forms of competitive transportation. Toll free canals and American railways competition have tended to reduce freight rates in Central Canada while the opening of the Panama Canal and the competition of United States rail carriers have served to reduce transcontinental railway rates to and from the Pacific Coast.



We go on to indicate that the freight subsidy is another part of the policy in this development. Paragraph 52 reads as follows:

52. Since 1951, the conditions and regulations under which Canada's railways operated have been governed by the two factors of ever increasing competition from water and motor carriers and by price and wage inflation. The increase in railway operating costs has been met by the Board of Transport Commissioners by grants of horizontal percentage increases in freight rates. These horizontal increases have operated to increase the sectional disparity in rates which national policy since 1897 has sought to diminish. Thus the national policy of reducing sectional disparity has been frustrated by the practice of granting increases which augment this disparity to the jeopardy of the national economy.

We then discuss federal assistance for highway construction, federal assistance for pipe line construction, which perhaps is remembered by members here in the Trans-Canada Pipe Line debates in 1958; then we discuss transportation policy and northern development and the policy for the acceleration and development of the northern territories; the roads to resources program and the large sums of money extended therein; the moneys used for more recent developments and so on.

The purpose of this material is to indicate that there is this consistency, and that it is going on today. The opening up of the regions of Quebec for mining development; the moneys being paid for the development of national rail line—today—to open up areas today. This is not historic. The chapter was not put in here simply to try to indicate that we know something about the history, but to indicate that this same consistent policy, from 1870 to this day, is there and is functioning today and is real and vital today. We conclude at page 20, paragraph 61:

61. The evolution of national economic policy since Confederation, particularly in relation to the provision of transportation facilities, can be said to lay emphasis on two objectives. Firstly, the achievement of rapid economic expansion. Secondly, the equalization of the benefits of such expansion in all regions of Canada.

"To depart further from, indeed, not to return to the ideal of a national railway policy of furnishing rail transport at minimum differential rates throughout the various regions of Canada would, in the light of history, be to undo the work of a century of nation building and make the position of Manitoba and the West in Confederation one of hardship and discrimination." (22)

The MacPherson Royal Commission in dealing with transportation and national policy stated, and I quote:

"National Transportation Policy is that particular component of the total national policy which is concerned with the effective use of transportation resources in Canada. Its primary function is to ensure that the transport system provides the comprehensive service which is economically adequate for the transportation needs of the country as a whole."

I would underline "economically adequate." The commission determined that the principles were to govern. The commission left no doubt that the primary

objective of national policy in Canada has always been to preserve and enhance the political and economic welfare of the Canadian people.

I will read the quote on page 21 which is a quotation from page 192 of volume II of the report. Wherever you see those brackets, in case you are actually going to want to seek out these quotations, the ones in the brackets are the second printing and are different pages from the first printing. At page 192 the quotation reads:

"... We must, if we are to obtain an adequate understanding of the complexities of transportation policy in Canada, recognize the fact that the transportation system which has become established in this country is essentially dualistic in nature—reflecting both its function as an instrument of national policy and as a vehicle of private venture operating along the lines of commercial principles. The existence of this situation has meant that national transportation policy in Canada has traditionally had to serve two masters—the dictates of public necessity and the requirements of commercial enterprise. Since the objectives of the former are not necessarily consistent with those of the latter—they are, in fact, often in conflict—the successful execution of transport policy in Canada has never been a simple task."

"... There is a danger, however, that an approach to National Transportation Policy which is excessively preoccupied with its financial aspects may tend to overlook the high national objectives which would not otherwise have been attained; it can also result in a lack of understanding of the complex character of Canada's transportation structure and the problems which beset it."

Now, clause 1 of the bill, ladies and gentlemen, indicates that it is intended to provide an effective guide to the interpretation of the entire statute.

Paragraph 65 reads:

It is our opinion that the Clause, as presently worded, overemphasizes the need for greater freedom of the railways to fix rates. This distorts the true purpose of a national transportation policy as above defined. The real purpose of a national transportation policy must surely be to serve the needs of the public using the various modes of transportation. The interests of the users of transportation services must remain paramount. To a considerable extent, the interests of such users will be best served by the free play of competition between competing modes of transport.

There can be no question about this.

Nevertheless, as the Royal Commission Report recognized, shippers must be protected against excessive charges in those areas where there is no effective alternative mode of transport. This protection will only be partial unless the shippers are also protected against unjustly discriminatory pricing practices by the railways or other modes of transport which will have the effect of increasing freight rates unduly in some regions and creating disadvantages for some shippers. In a cost-oriented rate structure, as is envisaged by this Bill, it will appear obvious that users must be concerned not only with the level of rates in relation to the actual costs of carriage but also with the relationships between rates. The provision of

adequate railway facilities is also an essential part of national transportation policy and the rates themselves are of little significance if the facilities and services do not exist to serve the users.

We therefore are suggesting an amendment of Clause 1.

It is hereby declared that the provision of an adequate, economic and efficient transportation system.

We have included the word 'adequate' as an essential part of any national transportation policy. And we have reworded and included in sub paragraph (b)

Regulation of all modes of transport will be such as to protect the users of transport services where there is no economically effective alternative mode of transport available.

(c) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided. . .

(d) each mode of transport, so far as practicable, receives compensation for the resources. . .

Chapter 2 deals with rail line rationalization. The bill in large parts reflects the submissions of the province of Manitoba to the MacPherson Commission, and subsequent submissions to the department and discussions on this topic. The sections concerned are those, 314A to 314H, Clause 42. Our primary concern in this area was the dual one of making sure that the needs of the specific community were served. Secondly, that where the national interests required the maintenance of deficit services, that the burden resulting therefrom was clearly removed from the back of the freight shipper.

In reading our submission on the rationalization program, it is imperative that that be borne in mind, that both of those must go hand in hand. There must be the realization that the community has an essential interest if a rail line is to be maintained, due to the public interest, and subsidy received. That subsidy must be reflected in the lightening of the burden by removing these costs from the classification of accounts relative to the setting of rates.

I turn now to paragraph 71 on page 25. While the situation that we find ourselves in now, the extensive branch line system, was clearly created by the decisions of railway management, a solution requires a co-operative effort on the part of both railways and users. It was in recognition of this fact that the province of Manitoba advanced its recommendations. The problem incorporates multiple interests. While railways are desirous of minimizing losses occasioned by non-compensatory operations, it is the freight shipper, who ultimately must bear the cost of any non-compensatory service and who has a primary interest in seeing that the various operations are, in fact, compensatory. From the purely financial viewpoint this approach would appear irrefutable. However, as indicated in our discussion of national economic policy and national transportation policy, the operation of rail transportation facilities in Canada was not predicated solely in terms of railway revenues. There is also the important aspect of public convenience and necessity. We would also emphasize to you, members of the Committee, that the approach of the province of Manitoba is one of rationalization, not abandonment. It was not our approach to this problem that rail lines should be ripped up. The approach was rather to see if we could not rationalize the use in operation of existing railway facilities. In some cases, this will obviously mean that some rail line will in fact be abandoned. But I think



that there has been an overemphasis in the minds of many people that this has to be a wholesale tearing up of line. And we see frequently the overemphasis of the word 'abandoned' rather than the word 'rationalize'.

Mr. PICKERSGILL: I wonder if I could interrupt Mr. Mauro to draw his attention to the map here.

Mr. MAURO: As a matter of fact, I sometimes wake up at night, Mr. Minister, with those lines etched on my mind. Unfortunately, we have to translate that map into actual operation, and it is not 1975 that we necessarily are concerned with; but that a policy be evolved that has meaning that can be carried forward. We are not critical, as the Minister knows, in reading our brief, with the sections. The amendments that we are suggesting to the rail rationalization sections are somewhat technical in nature. But we did feel that there is much more that can be done, and we want to make sure that we emphasize that we think the commission should be given the power, and exercise the power, of seeing to it that the railways co-operate for the rationalization of these services in the existing rail line.

Paragraph 74. The intent of the relevant sections of Bill No. C-231 reflect Manitoba's recommendations. One important matter must be commented on and that is the need to stipulate in the legislation that the losses associated with the operation of light density lines must be removed from the classification of accounts for rate-making purposes if the shipper is to receive the benefit and the safeguards intended by our proposal. In other words, our proposal which was supported by governments and associations of transportation users across Canada, was not designed to be another "handout" to the railways. The purpose of the subsidy was to alleviate and eventually eliminate the burden presently borne by the freight shipper. Now, we do make some suggestions as to amendments. We think the definition of what is a branch line is rather awkward. It is our opinion, as we set out in paragraph 76, that such terms as "subsidiary," "secondary," "local," or "feeder," are difficult of determination, and could lead to extensive unnecessary argument in the preliminary stages of determining what, in fact, are branch lines. We suggest that the approach taken in the act, as to the definition of passenger trains, might properly be incorporated relative to branch lines. Section 314I(1)(a) at page 29, defines "passenger trains" as "such trains as the commission declares by order to be passenger trains for the purposes of this section". We would therefore suggest an amendment to 314(a) to read that

"branch line" means a line of railway in Canada of a railway company that is subject to the jurisdiction of parliament that is declared by order of the commission to be a branch line for the purposes of this section and other relative sections.

We propose an amendment to section 314 B dealing with the verification of actual losses by the commission. The new section will read as follows:

If the Commission is satisfied that the application to abandon the operation of a branch line has been filed in accordance with the rules and regulations of the Commission, the Commission shall conduct an investigation affording the company and other interested parties the opportunity to make submissions and after such investigation including public hearings as the Commission deems necessary—

What we are concerned about, members of the committee, is that in the present section 314 B there does not appear to be any certainty that a public hearing would be held on the determination of actual loss. We think this would be an important part of any application, and that there should obviously be the provision that the costs submitted by the railways should be subject to review and examination, rather than simply having a determination by the board that yes the cost submitted by the railways indicate an actual loss, we will now have a hearing on the date on which the line should be abandoned, because under the act they have no power not to permit abandonment if actual loss is shown. All the power that the commission has under the act is to determine the date once an actual loss is set out.

In paragraph 78, section 314C, we would delete the term "uneconomic" in line 13, since this term is nowhere defined, and insert the term "actual loss". We carry this forward where there is some dichotomy in there and we find that it would be difficult of interpretation. We are suggesting that instead of "uneconomic" set out "actual loss" and then set out your other criteria as presently exist in the section. Paragraph 80, page 28. The province of Manitoba favours a program of railway rationalization rather than wholesale abandonment. Some of the factors affecting changes in the demand for railway transportation are land productivity, size of farm, the other elements that are set out in the paragraph. There can be no question that the abandonment of a branch line will shift transportation costs from the railways to the producer. I think that is important to remember. You are shifting costs, there is no question about it. That is why you are doing it. You are taking costs that are presently borne by the railways and you are moving them onto some other person, in this case the producer. There may be direct economic losses to the communities that lose rail services. Provincial governments and rural municipalities will be forced to shoulder increased expenditures for new roads and the maintenance of existing roads. Grain elevators will have to be rebuilt. These factors must be weighed by the commission in determining the economic and social costs of abandonment. Rail rationalization is not merely the abandonment of uneconomic branch lines, but the more efficient utilization of existing rail plant. It is for this reason that the province of Manitoba suggested that in an investigation relative to branch line operations, all railway lines in the area be studied so that the most efficient rationalization of plant might be attained, having in mind the economic and social cost to the communities and the users of rail services. We believe that the rationalization of rail lines can result in a major advance in national transportation policy. The commission will require the confidence and co-operation of all levels of government and public organizations as well as the railways to assure the success of the rail rationalization program.

I might say that we are generally pleased, as we have indicated, with the sections relative to this matter in the bill, with the suggested amendments.

Chapter III deals with burdens in the freight rate structure. These are sections 314 I to J. They flow actually from term (b) of the royal commission and the obligations and limitations imposed upon railways by law for reasons of public policy and what can and should be done to ensure a more equitable distribution of any burden which may be found to result therefrom.

Paragraph 84. The railways had argued before the commission that the passenger services were matters of managerial discretion, and did not represent

any meaningful burden. After repeated requests by interested parties it developed that the passenger losses in 1958, in the case of the Canadian National, totalled \$50.3 million and in the case of the Canadian Pacific, \$27.6 million. The province of Manitoba recommended to the commission that the railways should be encouraged to achieve efficiencies in rail services by the elimination of duplicate services and by other means as are available to them. Relative to actual net losses resulting from trunk line passenger and related services, if the services are deemed to be in the national interest, then the losses should be met from the national treasury. Of utmost importance was the recommendation that the losses resulting from passenger and related services should be removed from the railways' classification of accounts for the purpose of setting rates on the movement of freight.

We included in our consideration of passenger and related services the problem of commuter services. It was, and remains our opinion, that these losses represent a unique problem. In the United States an attempt is being made by the municipalities and railroads concerned to solve this problem on a cooperative basis. A similar approach is necessary to a solution of the Canadian problem. This will require discussion between representatives of the federal, provincial and municipal governments and the railways concerned. A final decision must rest on the particular facts, both regional and fiscal. But the losses resulting from commuter services should not be a burden on the general freight shipper nor on the federal treasury. The ideal situation would be one wherein commuter services would yield sufficient revenue to meet the fully distributed cost of providing the service. On the assumption that the railways are unable to impose the necessary level of rates, we suggested:

(1) that the services be abandoned or

(2) if deemed to be in the interest of the locality concerned, losses occasioned by that service, which we define as the shortfall of revenue below variable cost, should be underwritten by the municipalities and/or provinces affected, and

(3) that the uniform classification of accounts be revised to exclude the cost of commuter services for freight rate making purposes.

Paragraph 86. The railways and municipal authorities, since the findings of the royal commission, have undertaken studies and discussions in this regard. But we note in Bill No. C-231, section 314 I, that

This section does not apply in respect of a passenger-train service accommodating principally persons who commute between points on the railway of the company providing the service.

We recommend that this subsection be deleted.

I noticed in the *Montreal Star* yesterday that there is a hearing going on in Montreal on commuter services, and the indication of the Canadian Pacific in that hearing is that the line in question showed a deficit this year of \$678,920. In cross-examining the Canadian Pacific witness, the barrister quoted from Mr. Sinclair's submission to this Committee that the commuter services were not deficit. I do not know which is correct. The actual statement that appears in the press is that Mr. Viau asked Mr. Warren to reconcile this claim of \$678,000 loss with the statement of CPR president Ian Sinclair on March 8 before the Commons Committee on Transport and Communications, that he was satisfied with



the revenue from commuter services. Mr. Sinclair said that at that time commuter lines were more than meeting their variable costs. Mr. Warren said he was not competent to comment on that. What we are suggesting is—and we will be talking about this later on in our brief—that this is another one of these areas that costing is not the exact science that some witnesses before this Committee have suggested. There are differences of opinion depending on who you are appearing before and what case you are trying to make. I am suggesting that right now in Montreal the Canadian Pacific is proving a case that they are losing \$678,000 on one specific line. If that is the case, that loss should be removed from the back of the freight rate shipper in Canada. That is why we seek the deletion of the section and the treatment of commuter services as other passenger services.

Chapter IV deals with rates relative to the movement of grain and grain products for export. We are concerned here with clause 50, sections 328, 329 and 329 A. With reference to section 328, it will be noted that the export rates on grain and flour moving to Fort William and Port Arthur and similarly on the movement to Vancouver or Prince Rupert are fixed at the existing level. As the Committee is aware, a considerable volume of grain moves to the Port of Churchill in Manitoba and has so moved under the existing export rates for over 30 years. The quantities shipped exceed 20 million bushels per year.

The rates to Churchill, which port serves the needs of an expanding area of the prairie region, could be varied upward since they are not fixed under section 328. The movement of grain and grain products to Churchill is covered by section 329 (2) (b), but if the railway wishes to forgo the subsidy, it could do so and raise the rates on the movement to Churchill. It is our opinion that such a provision is a retrograde step and would be detrimental to the agricultural industry of western Canada. The importance to the Canadian economy of the movement of export grain is clearly reflected in the provisions of the bill. It seems incongruous that the movement of export grain to the port of Churchill, which should be encouraged rather than frustrated, is to be left in this uncertain position in the proposed legislation.

We therefore recommend an amendment to section 328 by adding thereto a new subsection (3) as follows:

Rates on grain and flour moving from any point on any line of railway west of Fort William, Port Arthur or Armstrong to Churchill for export over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament shall be governed by the rates prevailing on the twentieth day of August 1931.

I might say this is about the same period of time that Board order 448 dealing with the rates to Vancouver was set. There is no particular difference of treatment asked.

With reference to section 329 (1), we draw to the attention of the Committee that the commission shall within three years inquire into the revenues and costs of the movement of grain to export positions pursuant to section 328 and report such revenues and costs to the governor in council, "and the amount of payments necessary, in the opinion of the commission, to assist such railway companies to meet the costs of operations in respect of the carriage of grain and grain products after the 31st day of December, 1969, at such level of rates—"

Under section 329 A (3) which section deals with the movement of export grain to eastern seaboard, the commission is instructed to determine from time to time a level of rates consistent with section 334 and shall cause such rates to be published in the *Canada Gazette*. Section 334 states that rates shall be compensatory and defines what should be considered in determining variable cost for the movement of traffic. Sections 329 (1) and 329 a (3) should be consistent and we therefore recommend that section 329 (1) be amended in order to conform, and our amendment reads:

Not later than three years after the coming into force of this section, the Commission shall determine in respect to the movement of grain and flour pursuant to section 328 a level of rates therefore consistent with section 334 and shall report to the Governor in Council and the Governor in Council shall take such action as he deems necessary—

We could not understand why there was this different treatment for the movement of grain to export position in western Canada as opposed to the “at and east” rates to the eastern seaboard. Obviously, there was purpose in it. Under one section they are only to cost it out at a compensatory level, but under section 329 the eastern rates were going to be at a compensatory level and section 329 is obviously open to the Commission to give them something above a compensatory level and we say there should be consistency. We see real reason in determining the compensatory level and we think it should be left to the Governor in Council, as it is indicated in the statute, to do whatever they deem necessary in this matter.

We have also deleted the words “to provide assistance to such railway companies” which appeared in line 40 of the section, since it would presume that the commission will find that assistance is necessary. We have now dealt with it as we have indicated at page 33, that it will determine in respect of the movement of grain and flour a level of rates consistent with 334 and report to the Governor in Council.

We recommend that section 329(b) be amended to read as follows, and this is just a technical one on grain products other than flour moving for export:

We also recommend for the sake of clarity that section 329(2) be further amended by deleting therefrom the words “the 31st day of December, 1966” and inserting therein the words “the 1st day of January, 1966”.

We draw to your attention that rapeseed is defined as a grain in western Canada whereas it is not a grain in eastern Canada. Soya beans are a grain in eastern Canada but they are not a grain in western Canada.

An hon. MEMBER: Why?

Mr. MAURO: I do not know.

The CHAIRMAN: We will give Mr. Mauro a couple of minutes to catch his breath.

Mr. MAURO: Gentlemen, I will now proceed.

Mr. Pickersgill has indicated to me the rationale behind the difference in the treatment of the “at and east” costing and the “crow” costing on the basis that the “at and east” had been already determined by the commission as being at a non-compensatory level and the “crow” has had not a similar costing. The royal

commission has indicated a shortfall on variable, and as I understand it, sir, that is the reason for the treatment, but it, perhaps, covers our problem on that matter.

Chapter 5 deals with the alternative horizontal increases. Perhaps if one had to single out one section of the bill which was of primary importance this would be the part of the bill so singled out.

The sections relative to this matter are sections 334, 335 and 336. In order to properly assess the purpose and implications of the above section, one must review the background which led to the setting up of the royal commission and more particularly the major inequity that the commission was directed to deal with.

In September, 1958, the Canadian railways applied to the Board of Transport Commissioners for an interim increase of 19 per cent in the general level of freight rates and 25 cents per ton on coal and coke to yield an amount calculated to meet the estimated costs of increased wages to the non-operating railway employees which were pending as the result of negotiations with the union and the recommendations of a conciliation board. The Board, after hearings in October, allowed a horizontal increase of 17 per cent plus 22 cents per ton. All the provinces, except Ontario and Quebec, immediately appealed this decision to the Governor in Council, requesting that the increase be rescinded or suspended.

It was the submission of the provinces to the Governor in Council that there must be a halt to the method of granting freight rate increases by means of the horizontal percentage method. They indicated that since 1948 freight rates had been increased by a cumulative total of 157 per cent and that with each increase there was a further attrition and erosion in the traffic moved by rail with the result that in the hearings of October, 1958, it was admitted by the railways that about 75 per cent of the proposed increase would be extracted from 32 per cent of the traffic. It was further submitted that the major part of this ever-shrinking 32 per cent was traffic from or destined to the Western Region and the Maritime Region; those areas not having the extensive road systems of the Central Provinces nor the benefits of a highly developed water route. These regions represent the so-called "captive traffic" for railway transportation, and it was those same regions which have been constantly compelled to compensate the railways for any deficiencies in revenues.

We then go on to discuss the results of that appeal to the Governor in Council and the setting up of the MacPherson Royal Commission specifically to look into the inequities in the rate structure brought about by the horizontal percentage method of increase.

At paragraph 100 and subsequent paragraphs we deal with the inequity of the horizontal increase as it has existed for years in Canada. We refer to the findings of the Duncan Commission in 1927, the Turgeon Royal Commission in 1951 and at paragraph 104, on page 37 we say:

The general approach and desire of the Turgeon Commission is best illustrated by reference to the report of that Commission where in dealing with the problem (at page 47), it states:



"It appears therefore that the answer to the question raised lies mainly with the railways themselves, since the means of removing the cause of dissatisfaction is within their own initiative. It has been pointed out to the Commission that in this regard railway management in the past has often proceeded, in fixing freight rates, without sufficiently considering the interest of the community to be served, and without even showing a proper conception of the long-run interest of the railway."

We then discuss the development since the Turgeon Commission. Paragraph 106 reads:

That the inequity created by horizontal increases continued to exist was clear from the statement of the Acting Prime Minister on November 26, 1958 prior to the establishment of the MacPherson Commission. It was further corroborated by the statement of the Minister of Transport at the time that Bill C-38, which was legislation intended to roll back the most recent horizontal freight rate increase of 17 per cent, was presented to Parliament. The Acting Prime Minister stated:

"It is, however, recognized by the government that there are serious inequities in the present rate structure which have both contributed to, and been aggravated by, the system of horizontal rate increases."

The Minister of Transport on March 24, 1959 stated:

"The government has decided that the most effective relief is to be afforded by confining the subsidy to a reduction in the non-competitive class and commodity rates . . . These rates . . . are the ones which have taken the full percentage increases authorized by the Board over many years.

This manner of alleviation concentrates the benefits on the long haul traffic where rates have not been kept down by competition . . ." (24)

I ask you to remember those quotations because they are going to come in again on the basis of the Manitoba proposal relative to maximum weight control, the non-competitive class and commodity rated shipper. These were the people who had sustained the increases; these were the people who had suffered the most from the inequity; these were the people who national policy directed should be relieved.

We go on to discuss some of the comments made during the royal commission. At paragraph 108 we say:

We present, by way of illustration, certain statistics which will indicate and point up the impact of horizontal percentage increases in the freight rate structure. Table I, page 41, shows Comparative Rates for East-West and East-East Movements, 1949 to 1965.

These are from the way bill analysis. The ones on page 41, table I, are selected movements and they are there simply to try to point out in a more forceful way the impact of the horizontal percentage method. For example, in the commodity cereal food preparations, you will see that the rate per ton, east to west, the area

of central Canada anywhere west of Fort William, has increased between 1949 and 1965 by \$34.49 a ton. The east to east increase during the same period is \$9.33 a ton. Going down to iron and steel pipes, it has increased on the east to west movement during that period \$4.23 a ton; on the east to east movement 58 cents per ton. Agricultural implements which are rather an important item in western Canada, that movement has increased by \$33.65 per ton, east to west, and east to east \$6.86 per ton. Vehicle parts, \$32.59 per ton increase on the east-west movement and a reduction of 51 cents per ton on the east-east movement. The last one, containers, \$54.51 per ton increase over the same period on the east-west movement and \$2.71 on the east-east movement.

Table II is a comparison of average freight rates per ton on traffic to or from Manitoba points with average freight rates per ton on the same commodity moving elsewhere in Canada. This is a complete list of all commodities listed in the waybill analysis to and from Manitoba, so this list is complete as indicated above, excluding the statutory rates; all other commodities are listed. You can see there in the various categories the Manitoba average rate per ton as compared with the all-Canada average. Perhaps, more meaningfully, at page 43, are listed what we might refer to as the general commodities, manufactured goods, the items which have such an impact on the cost of living and doing business in Manitoba. In the total manufactures and miscellaneous, the average cost per ton for Manitoba is \$20.30; the national average is \$12.87 and the over-all average is, Manitoba \$11.06 per ton and the Canadian average \$7.40 per ton.

We have suggested and continue to suggest that the system of horizontal increase distorted this already wide disparity between regions in Canada.

Now, turning to page 44, paragraph 110, Table III on page 45, indicates that the inequity of horizontal increases is the result of emphasizing the increases in rates per 100 pounds on normal traffic. While the percentage increase may be applied equally on all rates, the resultant changes in cents per 100 pounds are indeed significant and clearly inequitable in application.

Just briefly on that, because it might indicate the maritime and western Canadian problem, we have set out in Table III the average rate per ton by type of rate. You can see there that, for instance, central to maritime rate is \$33.90 per ton; the central to western is \$75.26 per ton; the Canadian average is \$30.40 per ton. These are all in the class rates group. In the non-competitive commodity you have a central to maritime rate of \$12.46 per ton; you have a central to western of \$48.15 per ton and a Canadian average of \$6.90 per ton, in that whole category of non-competitive commodity rates. The third group, under the heading of normal rates, is simply a compilation of the foregoing groups of rates. You have a central to maritime of \$15.12; a central to western of \$52.95 and a Canadian average of \$7.72 which further underlines the distortion brought about by this type of increase and the distortion which exists today.

The foregoing material is presented as indicating the primary problem confronting the MacPherson Commission and an appreciation of this evidence is imperative if we are to properly appraise the proposed solution contained in Bill No. C-231.

We now go on to discuss the material before the commission, at page 46, the paragraph immediately prior to paragraph 113, which is a quote from the commission:

It is correct to infer, as the railway companies do, that the total expenses of the operation must be borne by the users of rail facilities. But it is not correct to infer that equity is preserved regardless of how the burden is borne. No shipper could properly claim to suffer inequity if he were asked to bear only the average percentage increase in costs.

This is really the rationale of the commission's recommendation and should form the rationale of legislation relative to maximum rate control, namely, that no shipper could properly claim to suffer inequity if he were asked to bear only the average percentage increase in costs.

Further down in paragraph 113, we say:

Those shippers who have alternative means of transport readily available are relatively insulated from the effects of railway rate increases, whereas shippers who remain dependent upon the railways—the so-called “captive shippers”—are apt to find themselves bearing the full brunt of the horizontal increases.

And, skipping a few lines:

In brief, the benefits which the new competitive transportation environment has brought to the Canadian economy are not being distributed in an equitable fashion and it is this phenomenon which is at the root of the “freight rate inequity problem” which is the principal *raison d'être* for this Commission.

Paragraph 114, page 47:

This is generally the background to the Commission's recommendations relative to maximum rate control. The evil that the Commission was attempting to deal with was that resulting from progressive horizontal percentage increases.

At page 96

“ . . . The power of the state must, in transportation as in other monopoly areas, attempt to substitute for competition . . .

There are reasons other than optimum resource allocation for the nation's concern with maximum rate control. The first is that such control sets the limit to the burden which any particular shipper must expect to bear. Second, the regulatory authority in acting as an appeal board provides the forum for the shipper who feels he is being unjustly treated . . . ”

And in dealing with the objectives of maximum rate policy the Commission stated:

“It would be desirable that it provide some solution to the additional burdens which fall on the long-haul shipper.”

Two aspects of Section 336 require attention. Firstly, the applicability of the maximum rate formula which involves the definition of a captive shipper and the determinability of a captive shipper. Secondly, that dealing with the formula itself.



The royal commission in dealing with this problem recommended that all shippers should have the right to declare themselves captive. They state:

"The decision to seek captive status must rest with the shipper. His reasons for initiating the action will be dissatisfaction with the rate he is forced to pay."

The legislation, as presented to this house, envisages that even shippers who are now manifestly captive must establish this fact by special application to the commission. It is difficult to understand why the legislation requires that those intended to benefit from the royal commission recommendation be subjected to this difficulty of establishing their right to a maximum rate. It should be remembered that the royal commission designed the formula as an alternative to the present class rate structure. All shippers in Canada have the right to a class rate on the movement of their commodities and this right does not entail an obligation to ship a given portion of their goods.

The commission at page 110 stated:

"... Our problem, as we see it, is to attempt to substitute a more realistic method of maximum rate control for the traditional class rate maximum, which will protect the captive shipper and not limit the operation of commercial principles in the growing competitive sector."

The royal commission on a number of occasions referred to the Freight Rates Reduction Act. This act in itself was evidence of the Parliament of Canada's determination that class and non-competitive commodity shippers were at least and I underline the word least, shippers to whom the term "captive" could apply because it was these shippers that the Parliament of Canada determined should be relieved of the excessive burden caused by the last general rate increase in 1958.

We are now advised in the provisions of Bill No. C-231 that the only captive shipper is one in respect of whose goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier. The definition itself creates difficulties of interpretation. More recently statements made before this Committee would indicate that the practical effect of the section relative to that segment of shippers previously considered captive would be minimal.

I was particularly interested in the statement of Mr. Gordon, the President of the Canadian National Railway, speaking to this Committee at page 1761, when he said, "If I could just make one comment. From what I have been able to establish from my investigation the concern about the captive shipper has been tremendously exaggerated—so exaggerated—that it is difficult for me to find a true captive shipper. He does not exist. He is a figment of the imagination, with some exceptions." Well, it was a very expensive figment of people's imagination. The parliament of Canada in 1958 set aside \$20 million, which was repeated, to help that figment of the imagination have his freight rates rolled back, and the parliament of Canada set up a royal commission to investigate that figment of imagination—and the royal commission, after a year's study, set out three fairly extensive volumes of evidence to develop that that figment of the imagination

existed, and that something should be done to help that figment of the imagination. And we say that captive shippers do exist, that the parliament of Canada has already spoken as to at least one group that should be encompassed in such a definition. We are disturbed because of the rather general reference in the act to someone who has to prove that he has no effective alternative form, more so, because of some statements that have been made before this commission as to who supposedly is to be benefitted by this exercise.

Paragraph 120: We are now faced with the situation, members of the Committee, where it is suggested that the only likely recipients of protection under the legislation are class rated shippers who represent one per cent of the tonnage carried by Canadian railways.

In the 1965 waybill analysis, the class rated traffic represented 1.7 per cent of the tonnage and approximately 4.6 of the total revenue of the railways. If we are to accept this position we must assume that the intent of the legislation is to leave without any control mechanisms approximately 98 per cent of the traffic. In addition, members of the Committee must remember that the existing class rates are, in fact, the maximum which the railways are permitted to charge any shipper in Canada. These rates are granted to shippers not by the gratuitous act of the railways, not by contract, but by the regulatory authority. If the above definition of captivity is to be accepted, there would be introduced a most alarming concept into rate-making in this country. We would have a situation where the present class rates are done away with, where all rules and regulations relative to unjust discrimination and unreasonableness of rates are eliminated, where a new maximum rate formula is introduced, the impact of which is unknown since cost data has been denied. In addition, the legislation requires that if this one per cent of the shippers prove their captivity, they then have to enter into a contract with the railways to ship 100 per cent of their traffic. They would be required to open their books to the railway and the regulatory agency to make certain that they have in fact shipped 100 per cent. Moreover, if they fail to ship 100 per cent they would be liable for the difference in rates, plus 10 per cent as liquidated damages. We would in fact, therefore, have introduced into the class rates structure the concept of the agreed charge.

You are introducing this idea: that from the period where there was a class rate structure in Canada which I had a right to by simply offering my traffic to the railway, and I did not have to tell them that I was shipping "x" number of tons and enter into negotiations with them as to the percentage I had shipped; I had a right to it. And they had a duty to give me that rate as common carriers in Canada. We are now setting up as an alternative to the class rate structure this new maximum rate formula that we really do not know anything about because we do not have any data. But now I as a shipper have to phone the railway, apply to the board, prove that I have a right to get the maximum and then I have to sit down and enter into a contract saying that I will ship 100 per cent. And they can come in, if I have not shipped it, and nail me with damages plus the difference.

There was some great discussion in this country when the agreed charge concept was introduced, that as a competitive method, as a competitive rate, there would be this contracting for 90 to 100 per cent of your traffic. So we have certainly introduced a novel concept into rate making, where we have built into

the maximum rate structure the fact that a person is compelled, in order to get a maximum rate, to ship all of his traffic.

Paragraph 121: The Freight Rates Reduction Act was introduced after the last general freight rate increase to alleviate the burdens carried by class and non-competitive commodity shippers. To exclude these shippers from the category of captive shipper would, in our opinion, be a retrograde step.

We would, therefore, add a new subsection (2) to section 336 as follows: "a shipper of goods in respect of which the rates in effect on the first day of January, 1965 were class and commodity rates subject to the Freight Rates Reduction Act, shall be deemed to have no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carriers". What in effect we are doing is saying that at least this group of people parliament in 1958 determined were those who suffered the increases and should be relieved by public funds. Surely this group of shippers are captive, have already proven their captivity by the action of parliament and should not have to come forward with further application.

We think we are making a concession because the royal commission said anybody should be able to declare themselves captive, which is consistent with the royal commission's idea that this was an alternative for the class rates. The class rates are available to everyone and the royal commission said this is a new class rate structure and should be available to anyone who wants to declare himself captive.

The province of Manitoba has compromised the self-declaration proposal of the royal commission, but suggested that at least that group covered by the Freight Rates Reduction Act should be deemed captive.

Paragraph 123: The commission recommended a procedure to regulate and control the ceiling on freight rates or, in other words, to regulate and control the component in a freight rate which is in excess of variable or out of pocket costs. The commission stated, "It is our conclusion that maximum rate control can come closest to attaining these objectives if it is based on the variable costs of a particular commodity movement plus an addition above variable costs such as will be an equitable share of railway costs.

Members of the Committee, you are probably getting bored with people talking about variable, fixed costs, contribution and all the rest, but the real argument before the royal commission relative to freight rates in Canada was not that the railway costs were too high, or that the railway return on investment was too high; the argument since 1946 in Canada has been that certain areas have paid a disproportionate amount of the fixed cost, paid a disproportionate contribution above actual cost. So the royal commission in setting up a system which became more cost oriented attempted to fix, by way of a new maximum rate formula, a level or limit to the contribution above costs that any shipper in Canada should be compelled to make. That is the context in which we are critically appraising both the bill and the recommendations.

The evil to be cured, as we set out in paragraph 124, was the disproportionately large share of railway fixed or overhead costs which were borne by the traffic "dependent on rail service." The formula contained in Bill No. C-231 fails, in our opinion, completely to provide any protection for the very type of shipper whose problems gave rise to the royal commission. Maximum rates are to be



calculated by determining the variable cost of carriage of goods in 30,000 pound carloads and adding thereto an amount equivalent to 150 per cent of that cost. In addition, it provides for a minimal deduction for loadings over the stipulated amount. The formula is based upon three arbitrary assumptions all of which are open to serious challenge: (a) the selection of the key weight factor of 30,000 pounds, (b) the contribution to overhead fixed at 150 per cent, and (c) the minimal deductions allowed for heavier loading. We deal with each of these separately.

Firstly, as to the key weight factor of 30,000 pounds. The variable costs referred to in subsection (2) of section 336 is based on carloads of 30,000 pounds and has no regard for the actual weight of the shipment. The uncharacteristically low 30,000 pound level is presumably based on the words of the royal commission report, page 100, where they stated: "Thus, the key weight upon which it is reasonable to base a maximum rate is the weight of the unit load the competing carrier could use to give his optimum rate." This statement is itself a contradiction in terms.

Maximum rate control is to protect the captive shipper for whom, by definition, there is no alternative effective means of transport. The use of truck carrying capacity as a measure of captive traffic rates is simply not relevant. If there were economically effective truck competition, maximum rate control would not be required. The application of the formula proposed by the bill provides meaningless protection for the shippers of heavy commodities and long haul shippers. The 30,000 pound figure is not representative of the actual situation in railway loadings. The average loaded weight of all Canadian traffic excluding grain, as shown by the 1965 waybill analysis, is 87,000 pounds, 43.5 tons per car. The non-competitive commodity traffic average weight car was 54 tons. The maximum rate formula, to be meaningful, should be designed to protect the non-competitive commodity traffic with average loading characteristics at present of nearly 110,000 pounds.

I might say we have also examined the official railway equipment register for January 1966. There is not a single car in the Canadian Pacific system rated at 30,000 pounds. The lowest weighted car is 60,000 to 69,999 pounds. There are 457 of those. The majority of their equipment, 31,900 cars are in the 120,000 pound category and they even have six that will car 338,000 pounds; but not one car in the system is rated at 30,000 pounds, and yet we have this uncharacteristically low 30,000 pound factor because there is the theory being voiced around that the shipper has the alternative to say, "Well, I can ship in four lots of 30,000 instead of one of 120,000." The theory is that the railway should not be penalized for taking one car of 120,000 pounds as opposed to having been permitted to give four cars of 30,000 pounds. Of course, it is unreal. To deal with the technology that we find today, they do not have that equipment; they have not had it for years. To introduce into the concept of maximum rate control a mythical figure of 30,000 pounds is meaningless. With maximum rates based on 150 per cent over variable costs for 30,000 pound carload, less the minimal reductions proposed in the bill, the percentage increase over variable costs for the actual weight moved will range from 150 per cent at 30,000 pounds to over 570 per cent for 140,000 pounds. So that while the contribution at this point in the discussion may be equitable at 30,000 pounds that same contribution, when it reaches the 140,000

pound level in a single car, reaches 570 per cent. Now we discuss the contribution to overhead of 150 per cent, and we will come up with that in a moment.

Paragraph 128: The third item was the deductions allowed for heavier loadings. Railways have advantages of cost, particularly over longer distances, as a result of ability to reduce unit costs through heavier loading and volume movement. Trucks, on the other hand, can provide effective competition, particularly on shorter hauls and in areas of higher traffic density. We have been denied any relevant Canadian railway data on costs in relation to distance and loadings, but investigation was made into published interstate Commerce Commission carload mileage cost scales in the Western region to illustrate economies of heavier loading. A 500 mile line haul box car movement was selected. Results showed a total out of pocket costs of \$169.20 per car of 30,000 pounds and \$230.40 per car of 120,000 pounds. Those are the actual variable costs indicated. While the weight carried in the more heavily loaded cars was 300 per cent greater the out of pocket costs are only 36 per cent greater. The cost per hundred pounds is shown as 56.4 cents in the lighter car, the 30,000 pound car, 19.2 cents in the heavier car or 66 per cent lower per unit. While the I.C.C. scales are not based on Canadian costs, they do indicate the cost relationships between various minimum weights. The maximum rate formula in Bill No. C-231 does not give the shipper the benefit accruing from reduction in unit cost due to heavier loading. Based on 150 per cent of variable cost at 30,000 pounds, the proposed formula results in 6.6 per cent reduction in the rate at 50,000 pounds, 9.9 at 70,000, 11.5 per cent at 90,000, 12.6 at 110,000 based on the cost information that we have.

I might say that Table 4 at page 52 shows the percentage by which maximum rates, as per Bill No. C-231, exceed the railways' out of pocket or variable costs; the top line, line 1, indicates the out of pocket costs in cents per hundred pounds. You will see that at 30,000 pounds, on the top line, the out of pocket costs are approximately 72½ cents per hundred pounds. At 140,000 pounds, because of the economy of loading, the cost per hundred pounds has been reduced to 22 cents per hundred pounds; and while at 30,000 pounds the maximum rate in cents is \$1.82 at 30,000 pounds it is reduced to \$1.57 at 140,000 pounds, and the contribution to overhead, which is the critical factor, increases from the statutory level of 150 per cent at 30,000 pounds to 574 per cent at 140,000 pounds. So this is the danger of these rigid rules without suitably reflecting the increased loading characteristics.

Paragraph 129 deals with this factor. We discuss the rail revenue. The rail revenue per car is, therefore, \$546 for the 30,000 pound movement and \$1908 in the case of the 120,000 pound movement. The applicable costs are indicated. Therefore, while costs are \$75 greater per car the revenues are \$1362 higher. What should be noted is that the shipper of the 30,000 pound car is required to contribute only \$328 per car towards railway overhead, while the shipper of 120,000 pounds is compelled to contribute \$1615 per car. That is the context in which we discuss this—because we indicated that the nub of the commission's enquiry was this contribution above costs, this disproportionate contribution above costs. We are suggesting that the formula fails to reflect proper relief for the long haul heavy loading shipper.

Paragraph 130: The provisions of a more equitable maximum rate formula requires that one or more of the assumptions on which Bill No. C-231 is founded

must be changed. It is our opinion that the formula requires revision both to reflect the economies of heavier loading and the percentage relationship of contribution to total variable cost. Our proposal is that the rates be based on actual variable costs, plus a percentage equal to the percentage difference that total permissive earnings are to freight variable cost, plus one-half the savings in variable costs at 30,000 pounds and at the actual loadings, where loadings exceed 30,000 pounds.

Paragraph 131: I wish that we could make this percentage factor less technical, but I am hopeful that because of the exposure that you have already had and the discussions on the Dominion and one thing and another, it will not be too obtuse. As you are aware, the existing regulations as to tolls chargeable are made pursuant to section 328 of the Railway Act which authorizes the board to set just and reasonable rates. The method utilized by the board is to consider the cost to the Canadian Pacific Railway, which is referred to as the "yardstick railway", determine the costs associated with the operation of that system, and determine the additional earnings permitted the railway, referred to as the permissive level of earnings. In the last general revenue case in 1958, by way of example, it was estimated that the total operating costs for the CPR for the year 1959 would be \$480.2 million. To this amount the Board added the permitted earnings. Now those are the items listed at the bottom of that quotation. You will note that as of December, 1957, the Board of Transport Commissioners had fixed that the Canadian Pacific could earn its costs, plus fixed charges of \$13 million, plus dividends on preferred stock, plus the dividends on ordinary stock at five per cent, a surplus of \$15.2 million, and an additional allowance totalling \$51 million. Now that is the factor of the earnings—cost plus \$51 million in 1957 which, in November of 1958, was increased to \$55.2 million. This is critical to what is going to happen under this new bill, because we have to substitute, I suggest, some regulatory control for the earning capacity of a regulated industry. Prior to this bill, the way that the CPR, was regulated in addition to the class rate structure and unjust discrimination, was that the CPR could not, in total, earn more than its established costs plus the earnings permitted by the Board of Transport Commissioners, which was \$55.2 million.

Mr. REID: This is the earnings on railroad operations, and not on the rest of the CPR?

Mr. MAURO: Correct, Mr. Reid, only if they designate it non-rail assets and rail lines. So that on their railway enterprise the CPR, in 1959, was going to be permitted to earn not more than \$535 million. It could not generate out of their rates more than \$535.5 million. That included all of their costs plus the \$55 million of earnings. Now, they never did reach that. The Board never guaranteed that they would reach that level, but that was fixed. Had they ever broken through that there could have been a reduction, because that was the fixed level that the Board, as established by parliament, had fixed as the proper return that the people of Canada should be compelled to make to the CPR for their investment in rail enterprises. And this is the ultimate check the regulatory agency has on the reasonableness of rate levels. There are various methods; we discuss them here, as you will note. There is a rate-base rate of return that is utilized in some utility companies, frequently on gas and light utilities. But in the case of the Canadian Pacific, historically we have used the permissive level of



earnings; we determine the costs and then fix the earnings the CPR is permitted to make.

At the top of page 55 we state that the proposed legislation introduces a serious departure from established practice since it will permit railways absolute freedom as to total earnings. There is to be no review of earnings, the only limitation being the apparently insignificant restriction on revenue from captive shippers. This was clearly not the intention of the Royal Commission. The Commission stated that the Canadian Pacific Railway continue to be regulated as to its permissive level or earnings. At pages 71 to 72, page 33 of Volume 1 the following appears:

...to the extent that we find that the public of Canada and the government of Canada do have obligations to preserve rail revenues, we have already recommended. (They are referring there to the passenger, the Crow, and so on). This alone will relieve the exposed shipper from some pressure for increases in rates. From this point on, should the railways make further application for freight rate increases, the permissive level of increase should be established by the Board of Transport Commissioners in such a way that no shipper is obliged to bear more than his fair share of increased railway costs.

Paragraph 133: Our formula reflects the clear statement of the Commission that the railways continue to be regulated as to permissive levels of earnings and also that the captive shipper bear his fair proportion, and only his fair proportion, of increased costs. In comparison, the proposed formula in Bill C-231 would create a most inequitable situation. The formula includes a fixed percentage (150 per cent) above variable cost, which percentage is related to no known factor. If the costs of the railways increase by \$1.00 the shipper's maximum rate will increase by \$2.50 (150 per cent). It similarly would destroy any real incentive for improving rail efficiency since for each reduction in unit cost of \$1.00 the railway would be subject to a \$2.50 loss in revenue. This was not the decision of a Commission directed to determine inequalities in the railway freight rate structure—to relieve the burdens on captive shippers and to recommend policies for achieving more efficient operation of the transportation system of Canada. Our formula carries forward the concept of permissive level of earnings and relates the percentage increase to the relationship between variable cost and total permissive earnings.

In paragraph 134 we discuss what we said before, the historic development of these earnings controls and I will read the last two sentences in that paragraph. If the present provisions of the bill are adopted Canadian railways will be placed in a unique position relative to other regulated industries in Canada. Such provisions go beyond any proposals, in our opinion, made by the railways themselves before the Royal Commission. We cannot recall the railways ever suggesting before the royal commission that there would no longer be any regulation of the upper limits of their earnings in totality. We are not suggesting going back to the old system of general revenue cases to determine the cost. We foresee, to the extent of variable cost, these would be automatic increases, because once the classifications for accounts were established, as wage increases transpired this would go into the cost side; but so far as permissive level of earnings is concerned, there would be hearings

before the board if the railways decided that their level of earnings was not sufficient.

Table V illustrates the working of the formula in determining the percentage factor. The words "in determining the percentage factor" have been left out; they should be in. The effect of the formula is to continue to relate the maximum rates to the permissive level of earnings. That is based on the 1958 data because that is the last we had from the Board. and, by the method we suggested, of relating freight variable costs to the total, we have established that the present level of earnings of the CPR would indicate that the percentage permitted over variable cost is 110 per cent; that is the percentage permitted on our basis. At present the level has been fixed by the Board of Transport Commissioners at costs plus requirements totalling \$55.8 million. As the railways, under our proposal, become more efficient, they will benefit from the increased efficiency. As they reduce their costs they are the beneficiaries. The percentage portion would actually increase as a relationship—and that is as it should be; they should be the beneficiaries of their efficiency. Similarly, our proposal assures that shippers paying maximum rates are not bearing more than their fair proportion of the total revenue requirements of the railway. To the extent that the railways conclude that they require additional monies over and above additional costs, they may apply to the commission for an increase in the requirements formula. If it is contended that such a formula would erode rail revenues, it should be noted that this could only occur in those cases where a captive shipper is paying a disproportionate amount of the revenue requirements of the railway—and I suggest that is exactly what the legislation should be doing, attempting to protect that type of shipper. In addition, clause 336 (11) provides that for a minimum period of three years there can be no application for this fixing of a maximum rate until the rate charged advances above the level payable on the 1st of August, 1966, and this latter provision gives added protection to rail revenues during the transitional period.

It is also our view that within the three years the commission should examine the permissive level of earnings of the Canadian Pacific Railway and, if necessary, adjust the requirements of that company and that the said permissive level of earnings should be examined on application at intervals of not less than three years. In other words, it is obvious that the Canadian Pacific Railway has not had an application before the Board since 1958. It is unfair to bind them into a level of earnings fixed in 1958. We have this three year period, and I have no doubt that the CPR, on today's prices and today's requirements in the market, would require a higher level of earnings; and they would make their application during that period to have the level of earnings fixed on today's requirement.

We then discuss some of our amendments, and we specifically have drafted the changes that we would like to see in clause 336, and they are there on page 58.

That concludes our submission on that particular subject of maximum rate control. But we do earnestly suggest to you, members of the Committee, that great care be taken on this section, because I think important principles are being established relative to regulated industries in the country. I think that review and consideration would indicate that we continue to have some check and balance on the upper level of earnings of a regulated industry—even though the legislation attempts to free the railways from supposed shackles. I trust that

it was not the intention because there is absolutely no limit to the total earnings that they can extract from the Canadian freight shipper.

Chapter VI of our submission deals with unjust discrimination and undue preference. And as I say, hand and hand with the maximum rate control, for the western shipper this is a critical matter because we have previously indicated not only is it essential as to the rate payable and the controls on the rate payable, but shippers in Canada also must have protection against the relationship between rates in Canada, particularly in the common markets. I might say that in my opinion this affects people in Ontario and Quebec just as much as it does people in the maritimes and western Canada because we now are having long haul shippers in those areas also. Ontario represents more than that golden section from Toronto to Windsor and Quebec is something more than just Montreal. In those areas outside of those regions it is important for them to get into common markets. It is not sufficient that you hold my rate down to this level if you unjustly give someone else a lower rate into a common market. You have effectively closed me out of it anyway, even though I have the maximum rate control. So that the unjust discrimination and undue preference sections that have now been totally blue-pencilled out of the Railway Act are very important.

In paragraph 140, at page 50, we suggest that Section 317 (1) be deleted and the following substituted therefor:

"Where the Commission receives information by way of a complaint or otherwise containing prima facie evidence that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the business of the complainant, or the public interest, the Commission shall conduct an investigation of the Act, omission, or result."

Now, the proposed amendment clarifies the matter of who may come under the operation of this section. Under the present section they just refer to the "public interest"—you have to prove injury to the public interest, and it reflects the statement of the MacPherson Commission that:

"... the regulatory authority in acting as an appeal board provides a forum for the shipper who feels he is being unjustly treated."

As to the procedure, we have attempted to reflect that set forth in Section 334 (5) dealing with non-compensatory rates. In the case of Section 334 (5), the Commission receives information and is required to conduct an investigation. Consistency demands that the same rules should apply to the investigation of an allegedly excessive rate as apply to a potentially depressive rate.

As you know, under Section 334, if someone says that a rate is non-compensatory the Commission is compelled under the statute to investigate the allegation that a rate is too low. We suggest that it should be just as mandatory for the Commission to investigate an allegation that a rate is too high or that there is unjust discrimination.

Section 317 (1) refers to "rates which may allegedly affect the public interest". The definition and determination of "public interest" creates unnecessary difficulties. The Section is meant to protect the shipping public against prejudicial acts of the railway; at least this is what we have assumed. The proposed amendment in no way affects the intent of the Section, and the



Commission retains the broad discretionary rights and determinants set out in Section 317 (2). I just want to communicate that while you introduce this broader aspect of application for reviewing an act or omission of the railway which is prejudicial to the complainant, you maintain in subsection (2):

(2) In conducting an investigation under this section the Commission shall have regard to all considerations that appear to it to be relevant including

- (a) whether the tolls or conditions specified for the carriage of traffic under such tolls are such as to create an unfair disadvantage beyond that which may be deemed to be inherent in the location, scale of operation or volume and type of traffic; or

So, what we are saying is that the Manitoba shipper should have no right to expect that his geographic location is offset. We will suffer the penalty of our geographic location. On the other hand, subject to that type of restriction, there should be no right on the part of the railway to determine who is going to compete in a given market and who is going to do business in a given market. Unless there is some control set out that is effectively what is permitted.

Paragraph 143: The amendments will provide the same degree of protection under the Railway Act as is now provided a shipper under Section 32 (10) of the Transport Act. For the information of the Committee that presently reads:

32. (10) Any shipper who considers that his business is or will be unjustly discriminated against by an agreed charge may at any time apply to the Board for a charge to be fixed for the transport by the same carrier with which the agreed charge was made of goods of the shipper that are the same as or similar to, and are offered for carriage under substantially similar circumstances and conditions—

So, we are saying that the same principle should apply in the bill relative to unjust discrimination and undue preference in Section 317.

We are also suggesting that subsection (3) of Section 333 be amended to read as follows:

(3) "A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission, *but the said tariff must be filed within the time limit prescribed by the Commission.*"

The section, as it presently reads, would indicate that it is not necessary to file the tariff at all.

Paragraph 145: We agree that the railways should be permitted to act on a tariff reducing tolls immediately on the issue of the tariff. But if the protection provided by Section 317 is to be meaningful other shippers must have knowledge of the reduced tolls in order to determine whether there is discrimination or injury resulting from the reduction of tolls by the railway.

Paragraph 146: Subsection (4) of Section 333 states that the tolls appearing in the tariff are to be conclusively deemed "lawful tolls" . . . "and the company shall thereafter, until such tariff expires, or is disallowed by the Commission, or is superseded by a new tariff, charge the tolls as specified therein." It is our opinion that there must be a power of suspension of tolls by the Commission. As

you know, under the present act, the Commission can suspend any tariff tolls. Under the new act, I assume deliberately, the Commission is being stripped of any power to suspend a railway tariff of tolls. Now, if this is not provided there could be a situation where shippers were forced to pay rates which were subsequently determined to be unlawful, without any provision for redress. This would be particularly onerous if the investigation of the tolls by the Commission was over an extended period of time. We have suggested in our proposed amendment—we do not think it is a very substantial amendment but we think it is a power that should be maintained—that the Commission should have the right to suspend tolls.

Paragraph 148: Section 319 (9), page 35, refers to the offering of similar facilities for motor carriers. It states:

“If a railway company provides facilities for the transportation by rail of motor vehicles or trailers operated by any company under its control...”

It is not clear that the subsection covers the operation of piggyback by the railway companies themselves, in addition to subsidiary controlled companies. The Bill would be less effective if it were to permit the railways to discriminate against motor carriers relative to piggyback services offered by the railways themselves, while protecting the motor carriers against any discrimination relative to subsidiary trucking companies owned by the railways or under their control. We therefore recommend that subsection (9) be amended to insert the words... “by the company or any company under its control” in line 15. This, I am sure, may be an oversight; maybe the section was meant to cover it but, as members of the Committee know, the CPR has CPR trailers and the CPR also owns Smith Transport. We want to make sure that the conditions against unjust discrimination apply to the movement of CPR trailers as well as to the movement of Smith trailers, and if they are rating the CPR movement at a certain price that should be available to other motor carriers.

Chapter VII deals with the costing procedures in the new rate structure. The opening sentences of paragraph 149 indicate our concern about this. Accurate costing of railway operations is vital to the recommendations of the Royal Commission on Transportation as incorporated in Bill C-231. The costing of the movement of export grain rates, the determination of subsidies relative to uneconomic branch lines and passenger services as well as the determination of minimum and maximum rates all require accurate analysis of railway costs.

We go on to discuss the matter of variable and constant, long run, short run, the discussions before the Commission, and we set out at page 64 the relevant sections dealing with costing in the legislation before this Committee.

Paragraph 159 on page 65, deals with cost of money. Specific cost factors will be determined by the Commission but reference must be made to Section 336(3) relative to cost of money. Pursuant to that subsection the Commission is to include in determining variable cost for the purposes of fixing maximum rates, an amount for costs of capital, based on the cost of capital deemed appropriate for the Canadian Pacific. Since the maximum rate is the variable cost plus 150 per cent it follows that the maximum rate will include an amount equal to the cost of money plus 150 per cent of the cost of money. In other words for each dollar cost of money allowed to the CPR the captive shipper would be required

to pay the CPR \$2.50. We suggest this was not clearly their intention. About the 3 per cent level was determined by the Royal Commission as being their factor for cost of money, and that appears as one of the variable cost items. It should not be factored at 150 per cent. We are therefore recommending that section 336(2) be amended to read:

... The shipper may apply to the Commission to fix a rate for the carriage of the goods, and the Commission may after such investigation as it deems necessary fix a rate equal to the freight variable cost of the carriage of the goods and an amount equal to (—) per cent of the freight variable cost plus an amount computed as being the cost of capital applicable to the carriage of goods."

Now the cost of capital is added after the percentage increase. In other words, they would determine what the variable cost was excluding cost of money, factor it by 110 per cent of whatever percentage was the level and then add on a factor for cost of money, instead of putting in cost of money and adding a percentage on top of it. We have changed the section so as to permit this in the determination of variable cost.

Paragraph 161: We recommend that Clause 69 be amended by adding thereto a subparagraph (c). What we have done is provide there will be separate accounting of the operations of passenger trains or services, including commutation trains and services, and express and mail services. We discussed this previously in our submission. The purpose of the additional paragraph is to make certain that the burdens represented in operation of passenger and related services are clearly segregated in the accounts of the railway. This is essential if the commission is to have proper data upon which to base subsidy payments incidental to the operation of these services, and in addition to remove from the freight shipper any cost so occasioned.

Paragraph 163: Then we deal with the costing of other modes of transport. I would simply want to comment that there must be procedures to maintain effective intermodal competition. There must be separate costing procedures established which will reflect the inherent cost advantages of the various modes. In other words, it is not sufficient to establish a costing procedure for rail plans and facilities and try to apply those costing procedures to water carriage, air carriage, pipeline movement or truck. We will be speaking again, in our last chapter, about some of our fears of the commission and the tendency of these bodies to become determinates of intermodal competition without applying the various costs. Shall we say under the costing there should be this separate determination of cost data and cost criteria.

Section 387(c) is the section that says that everything the commission receives from the railways by way of cost data is to be digested only by the commission, that they are not to speak to anybody else or let anyone else see it, or let the public know on what cost basis they came to these conclusions. This section reflects the position taken by Canadian railways that no cost data should be made available to the shipping public. There is something mystically significant in cost data of railway companies. We say this matter is of critical importance to the administration of the entire act. Since this has been raised before this committee on a number of occasions we think it demands some detailed consideration. We stress the factor because in a cost-oriented rate structure the



need for accurate cost data is critical not only to the operation of the transport commission but for the consideration and utilization of shippers in determining their transportation needs and services. During the hearings of the royal commission the railways always, if nothing else, remained consistent; they opposed every attempt by the provinces, particularly the provinces of Manitoba and Alberta, to obtain cost data which would permit critical analysis of the grain cost study. The commission ordered the railways to make full disclosure of costs relevant to export grain and further required that data be submitted regarding passenger service losses and commented on that. From the position where they said the passenger service losses really were not significant, we found in the case of the CPR it was about \$26.7 million and in excess of \$50 million in the case of the CNR. In the case of the grain cost study the committee will recall that the cost data made available to the province in the grain interests reduced the alleged short-fall of the variable cost from \$98 million to \$70 million. Since any losses were to be met by the federal government the availability of this cost data resulted in direct savings to the federal treasury of some \$28 million.

It is the opinion of the Province of Manitoba that a more cost-oriented rate structure requires more rather than less cost data and the publication in addition of cost scales and burden studies.

In paragraph 167 we note that in the United States the railways are required by law to provide data to the ICC which permits that body to publish reports commonly referred to as cost scales and burden studies. These reports enable interested parties to assess their contribution to fully distributed costs and to compare their position with that of other shippers. These studies are of equal value to the regulatory agency in fulfilment of its duty to ensure equitable treatment of all parties. It has become increasingly apparent that such data are long overdue in Canada.

We discuss then the opposition of the railways. We quote from the testimony of Dr. F. K. Edwards a railway witness. I cross-examined him on what these great dangers were, and he could not come up with any instance that any railway had been injured in the United States by the issuance of this data. In fact he suggested these studies were, in fact, valuable.

I then include in the brief excerpts from the evidence of Dr. Ernest Williams of Columbia University, at paragraph 170. At the end of that paragraph on page 70 the underlined portion reads:

But certainly it is becoming recognized by our railroads and increasingly, I think, by shippers who are called upon to negotiate rates with carriers, as well as to contest rates and regulatory proceedings, that cost tests have become increasingly important.

Paragraph 171: There can be little question that from the viewpoint of usefulness, the need for such studies in Canada is acute. Additional costing information is required by the regulatory agencies, shippers and carriers.

Paragraph 172: The MacPherson Royal Commission on Transportation emphasized the need for an efficient costing section attached to the regulatory agency, and at page 65 stated:

...national transportation policy should equip the Board of Transport Commissioners with the most efficient costing section that is possible, staffed competently, and provided adequately with the necessary data from both public and private sources.

Paragraph 174: In case the Committee is under any misapprehension that costing is an exact science—and we have made some reference to that previously—not subject to varying opinions, we refer to the report of the Royal Commission at page 56 where they comment on the very large disparity of results between the railway studies and those who challenged them. These differences were attributable to:

“the general and specific lack of agreement on the assumptions necessary before any of the methods are applied”. It is in this area of assumptions and methods and the use of that data that differences of opinion arise and where the decisions of the Commission will be critical.

I underline this because there has been some sort of trend in the discussion before this committee that this is just a bit of mathematics. You have had pictures shown to you and it has been said that it is very simple arithmetic. Well the arithmetic has never been the area we have been fighting about. It was the basic assumptions that went into the computer, the so-called models, the hypotheses upon which the costing was coming out. You can come out with any number you want and I can assure you you will never find that these highly intelligent cost experts made a mistake in adding. The mistakes, if any, come in their determination—

Mr. PICKERSGILL: Are you sure of that?

Mr. MAURO: I would not want to be held to not cross-examining on their adding but the area is in their initial assumptions as to variability and what is long-term, and these assumptions that are going to be laid on the allocation of constant cost. Members of the committee, there is little difficulty or relatively little difficulty where you can make a direct allocation and it can be determined that that cost can be affixed to that particular movement. But where the trouble begins is when you start allocating costs, where you start taking a common pool of costs and say we have to start fixing these to various units of traffic, and depending on the assumptions you make you can come up with any conclusion you happen to want to arrive at. Now there has been some discussion also that in the grain costing, while there was this wide variation of some \$28 million, it was rather an insignificant thing; it was only one real item that was concerned.

I just want to say to you that the difference represented 40 per cent on the variable cost as estimated. In the case of the CPR the shortfall was revised downward from \$17 million to \$2 million, and in the case of the CN from \$17.1 million to \$4 million. The difference is 40.1 per cent in the case of the CPR and 40.2 per cent in the case of the CN—a 40 per cent variation. Minor? Not in the opinion of the province of Manitoba and the province of Alberta, who went to the trouble of examining this cost data. This is why we say cost data has to be made available. It is not sufficient that the commission have it, that they assure us that they have looked at it and everything is all right. The public must see this; the public has a right to see it, and the public has the right to examine and analyze it.

At the foot of page 71, only because there is such a similarity between statements being made before this committee and the statements made before the commission do we quote their report again at page 107:

Considerable concern was displayed by the railway companies who appeared before this commission at the possibility of cost information

becoming generally available. It is possible that this concern may be a basis of objection to this scheme of maximum rate control. There are two comments appropriate to allay the concern.

The first is that there is no particular commercial significance to variable cost. It differs with each type of shipment, each length of haul, each service peculiarity demand, and furthermore, is not necessarily the basis of establishing the minimum rate. The establishment of a maximum rate and the knowledge of the percentage of the variable which will be applied to the variable cost will enable the captive shipper to know the variable costs of his traffic movement. But this information is of no more use to a shipper or other carrier under the new situation than is knowing the rates charged various shippers in the present system. . . . Railway transportation business in Canada, so long as pockets of significant monopoly persist, is public business. Public business involves public review. Such limited review of railways costs cannot harm the conduct of the nation's transportation business so long as each mode is free to compete on the basis of its cost patterns.

I do sincerely underline that because there has been all of these statements made to the committee that dire consequences would result if the railways made their cost public. They have been denied to us for this committee proceeding, and that is the decision of the committee. I earnestly request that you do not hamstring the commission in the carrying out of its obligations under the act by saying that any cost information or cost data that it obtains should not be made public or should not be made available to anyone, because I think it would frustrate the proper administration of this act. There has been some suggestion now that it is not the competing mode of carriers that the railways are concerned about; it is the powerful shippers who might get a little information and then really make it difficult for the railways. I would suggest that could only occur in areas where the shipper is paying in excess of the amount allowable, if he were a captive shipper and under the application of the maximum rate formula. Otherwise, I can assure you that these powerful shippers are very cost-oriented. They are able to handle themselves, and you are not telling them anything they cannot find out for themselves and determine by themselves by some pretty accurate costing on their own part. They will come up with ball park figures that will assist them in their negotiations with the railways. But we are concerned with the great body of shippers who do not have that availability of cost data and cost techniques. This is where the publication of cost data, as indicated in the United States, would be helpful.

In light of the recommendations of the MacPherson Commission and in light of the fact there is no prohibition now in the Railway Act relevant to the discretion of the commission in the publishing of data, we strongly urge that no direct prohibition be placed on the commission relative to the publication of statistical information and cost data obtained by the commission. We are satisfied that the commission should be allowed to exercise its discretion in this matter. We, therefore, have not come forward with a recommendation, which we strongly feel, that the commission be directed to publish cost scales and burden studies—that was our position before the Royal Commission—but we do ask you not to prohibit the discretionary power of the commission to publish what data they deem advisable. We suggest the deletion of section 387C.



In Chapter VIII we deal with general matters. The only portion of note would be:

Only the railways under the Bill are permitted to charge tolls without filing a tariff—only the railways are permitted by Section 337 to charge common rates and agree upon rates and only the railways are apparently protected from the operations of the Combines Act.

It is our opinion that the legislation should either extend these provisions to all carriers or remove this special treatment as it applies to railways.

If we are in this new exciting free competitive era one might properly argue that the railways should not be compelled to charge common rates, that the railways can compete between themselves if they so desire, and that they be subject to collusion and combinations in restraint of trade or anything else that businessmen in Canada are exposed to. If not, I think the same protection should be granted truckers and other carriers in the country.

The final chapter, members of the committee—we have reached the last portion of the submission—deals with the Canadian Transportation Commission itself, which is a new concept so far as a regulatory agency as such is concerned. The bill introduces a new federal authority referred to as the Canadian Transportation Commission with power to regulate various agencies of transportation in Canada, including rail, truck, marine and commodity pipelines and to a limited extent, air transportation. The concept of such a central authority is not new in the Canadian experience but it is worthy of comment in the context of the legislation before the committee.

We then go on to refer to the statements of the Turgeon Commission in this regard and their recommendation which was not adopted in any legislative form. At paragraph 182 we refer to the problem of co-ordination as it existed also in the United States, and to a study made in the United States in 1949. I think it is rather interesting in the context that very recently, they set set up a Department of Transport, a new cabinet position in the United States. The quotation from the study reads:

Students of government relations to transportation have often pointed out a defect in our system of regulation, and that is the absence of any sufficient provision for planning and prevention. Regulation is essentially a means of curing evils after they arrive. It would be better, of course, if they could be prevented in advance. There is need for foresight—for consideration and comprehension of tendencies and trends and where they are leading, in order that those that are desirable may be encouraged and those that are undesirable discouraged.

Anyone who has served on the commission knows that it is not well adapted to such work. Its functions are performed under quasijudicial procedure. Its attention is occupied with specific cases which must be decided. It has little time for thought and research on broad lines. It is difficult for commissioners to confer with parties on controversial issues, without constant need of protecting their own position in the event that they are called upon to play the part of judges in actual litigation. Planning and prevention are not matters which can well be handled at all times or as side issues. They require singled-minded, concentrated attention...

We have seen more recent developments in Canada, the extension of transportation facilities, and those are outlined.

We have also referred to the Gordon study, the Commission on Canada's Economic Prospects, and we note that they were against a super-administrative board. They thought that co-ordination was necessary but that a superboard would probably not work.

In paragraph 184 we state: It was the opinion of the government of Manitoba that the co-ordinating authority that we proposed should be established with regional representation, thus permitting the proper consideration of national policies as they effect the various economic regions of Canada. The major task of such an agency would be the direction of research and planning into transportation problems in conjunction with or independent of specific agencies. The authority would report annually to the Minister relative to problems of transportation of the nation.

It was opinion that such an agency should not have direct administrative responsibility. The present regulatory boards were capable of discharging the administrative responsibilities in specific fields of jurisdiction more effectively than would be possible under an over-all super-administrative tribunal.

The MacPherson report largely adopted the submission of the province and stated: "Regulatory boards and agencies cannot and should not attempt to fulfil the positive or promotional aspects of transportation policy." While the provisions of Bill No. C-231 go beyond these recommendations to the creation of a new national transportation commission, the province of Manitoba approves in principle the objectives of such a commission, namely, the co-ordination of existing transportation media for a more efficient allocation of transportation resources.

Our concern lies with the problems of administering the various agencies presently in operation and at the same time permitting the commission the opportunity of research and consideration of developing problems before they reach the critical stage. If the new Canadian transport commission is merely to operate as a group of 17 men, as opposed to the various boards as presently constituted, we see little apparent benefit. If, on the other hand, the procedures adopted and the authority granted will permit the examination and study of developing problems and the review of existing transportation needs in the nation real benefit can result. We trust that the prime motive of the commission will be to create an atmosphere wherein the most efficient carriage of people and commodities will be achieved rather than a system where an inter-modal competition will be frustrated.

I might say, as an aside, that we have strongly endorsed the position of the Minister of Transport on the need for independent research. We think that this commission, under its research, of necessity, is going to be dealing with the regulatory problems of the commission and that if there is any intention that it become a sort of a czarist approach to transportation and that everything affecting transportation in Canada, from independent research and broad research down to the minutest detail is to be controlled by this commission, we are going to be in a deep problem.

We feel that there are inherent dangers, as we have indicated. There has been a tendency in the United States for the I.C.C. to become an agency that

regulates inter-modal competition. You get a situation such as they had in in the southern governor's case, which was a case involving the movement of grain in the southern states, where the whole investigation was whether or not the level of rates charged by the railways was unfair to the barge lines, and where you have cases constantly before the Interstate Commerce Commission to determine whether the rate charged by one carrier would be unfair to another carrier. We mention this as an inherent danger in the over-all administrative tribunal.

There is nothing we can do by way of legislation. We just mention it. This is one of our concerns. It is our concern when we deal with motor carrier competition because in western Canada the motor carriers have been one of the few weapons we have had to set up a competitive environment for the railways. We would be most disturbed if, under this new superboard, you created an environment where this competitive factor was reduced or eliminated.

We wanted to bring that to your attention. We think that just as certain specific boards can become oriented to a specific carrier, you can have a superboard oriented to carriers generally and start slicing up the margin for the benefit of the carriers rather than for the shipping public. Or, just incidentally for the shipping public.

At paragraph 186: if, in this regard, the government intends to have a fully co-ordinated transportation policy under the direction of a single authority we strongly urge that Air Canada be brought under the operation of the Aeronautics Act so that air policy, which is now a vital and growing factor in the movement of both people and commodities, be properly co-ordinated. In the light of the new co-ordinated approach which the legislation indicates, we suggest that section 324 be amended so as to reflect all factors in the inter-modal movement of goods—and our amendment is set out.

We adopt and endorse the statement of the Minister of Transport, as reported in the House of Commons Debates for September 1, 1966, where in indicating the reason why the government was proposing such a new regulatory agency he stated that it—and I quote:

... was not that the regulatory functions would necessarily be done by a body with separate committees, but that it was really filling a vacuum that badly needed to be filled, that it was just as important to have continuous research investigation and study, and to have it done by competent people all the time and not just spasmodically, as it was to have good regulations and able boards to administer those regulations.

All of which is respectfully submitted, Province of Manitoba. Thank you.

The CHAIRMAN: Thank you, Mr. Mauro.

Before the questioning begins Mr. Pickersgill has some comments based on this statement.

Hon. J. W. PICKERSGILL (*Minister of Transport*): If it is agreeable to the committee, I might clarify a few points. I do not want to engage in any kind of argument at this stage, but I did think that perhaps some of the things that have happened since Mr. Mauro first started to work on his brief might get cleared up, so we could concentrate on the things we will most want to discuss.

There is, however, one point on which I would like, perhaps to engage in a fundamental ideological difference with the brief. While I am really putting it in



the most aggressive kind of way, I do not feel aggressive about this at all, and before stating the disagreement, I think I would be expressing the views of members of the committee, though I am not a member of the committee, when I say that I think Mr. Mauro is to be complimented on the manner of his presentation which I thought most impressive in dealing with a very difficult subject.

On page 22 Mr. Mauro attempts to read the mind of the author of the bill in a phrase in which he refers to "a cost-oriented rate structure as envisaged by this bill". Now, I happen to be the author of the bill and however much it may be distorted in presentation, I presumably am the person who is capable of knowing what the orientation is or is intended to be. The bill is not intended to provide a cost-oriented rate structure at all. I do not think Mr. Mauro really means this. I think, perhaps, we can clear up this difficulty and if we do we will save an awful lot of time in the committee. The rate concept of this bill is, as I understand it, the concept of Mr. MacPherson's recommendation, namely, that we should have a competition-oriented rate structure in transportation. The cost-oriented rate structure is to apply only to two kinds of situation, and if as I think maybe Mr. Mauro means, he is referring to the situation where there is what might be called a genuine monopoly situation, or something close to a genuine monopoly situation, where there cannot be any effective competition-oriented rate structure, then, I would agree with what he says. In respect of those situations where there is a genuine monopoly there must be cost-orientation. That is the substitute for competition orientation. But the competitive rates are not intended to be cost-oriented at all. This is very important, I think, because it does relate to another point that I would like to clear up in a moment.

There is another respect in which there is to be cost orientation and this deals with the very last point Mr. Mauro made about motor carrier competition. We are providing in this bill another form of cost-orientation regulation of rates which applies only to the railways, and that is that they are not to be allowed to charge rates—with the possible exception of the grain rates—which are non-compensatory. We are not saying that motor carriers may not do that if they want to, or that any other carrier may not. The reason for that is that theoretically—and the railways have pointed this out to us—the same rules should apply to all, but as a matter of practice it is our view that no other form of transport at the present time is in a position to engage in the kind of cut-throat competition which would put the railways out of business, whereas, there is a feeling in some quarters that the railways, left to themselves, might, by cutting their rates below their costs, put other forms of transport out of business. That, I think, does also deal with another point at the very end of Mr. Mauro's presentation where he said at page 77: "We trust that the prime motive of the Commission will be to create an atmosphere wherein the most efficient carriage of people and commodities will be achieved rather than a system wherein inter-modal competition will be frustrated." Well, I certainly share that hope completely. I think nothing would be more frustrating to the whole purpose that we have in mind than to have a transport commission established that was going to slice up the transport business in this country among the carriers and let them charge as much as the shippers would bear. It is our desire and our purpose in this bill—I think this is probably shared by all members of the committee no matter what their political affiliation may be—it is our view that the

prime purpose of having transport is to carry people and goods as efficiently and economically as possible and that the welfare of any form of transport is secondary to the public good. That does not mean that we should not pay attention to the welfare of these forms of transport because if we do not they cannot do the job efficiently. But the prime purpose should be the public good. We do want the kind of cut-throat competition at less than cost which will put competitors out of business and wreck the transportation system, but we do think that the maximum competition at remunerative rates is the best thing to promote the public good. I could not be in more complete accord with that view.

Now, one observation I would like to make with respect to a reference on page 27, with respect to branch lines. This is just to say, as I have already indicated to the committee, that, in the hearings with respect to the abandonment of lines, wherever any interested party applies to have a hearing about whether there is an actual loss, the bill will be so drafted that there will have to be a hearing. So the committee does not need, I think, to bother discussing that point any further because as far as the sponsor of the bill is concerned it is conceded already.

Then on page 31 there was a reference to commuter services. I thought I should indicate that we are—I am not sure if it is being tabled today or not—proposing an amendment with respect to commuter services which I think will substantially satisfy the representations on this point. I recognize that the bill in its present form just asks the question and we now think we have an answer to the question—not a complete answer but an answer that will be sufficient.

Now, on the grain rates to Churchill, the best advice I have is that, while these rates are not actually frozen at the Crowsnest level, the bill provides that subsidies will never be paid to railways on grain movements if the rates are raised by the railways. So they are frozen pretty effectively, but if there is any way in which we can make certain that the rates to Churchill are going to be maintained in the same way as the other rates that will certainly be done. After all, I belonged to the On-to-the-Bay Association when Mr. Mauro was being brought up at the Lakehead and I never lost my interest in the Hudson Bay Railway.

I sometimes forget I am in a committee where we are all friendly and not in the House of Commons. We often wonder when Mr. Mauro is going to appear in that arena.

I think we would not quarrel with the general proposition as it is made in the underlined passage at the top of page 46. Certainly I agree that no shipper could properly claim to suffer inequity if he was asked to bear only the average percentage increase in cost. This whole question, I think I could perhaps better discuss in relation to the quotations on page 48 which Mr. Mauro drew our attention to. This comes, of course, to the very core of the problem with respect to maximum rates. It is true, of course, that we have, in the bill, not followed the earlier concept that came from the MacPherson Commission that any shipper could make himself a captive shipper whether or not there was a competitive mode of transport. But that is a very different concept from the concept of protecting someone who is subject to a genuine monopoly situation. It is hard for me to understand how, if there is a monopoly situation, it could be any hardship

for the shipper to have to ship all his goods by the only mode of transport there is. It may be not important to put that position in but it does appear to me that it would be any great hardship to have it there.

The more important point I wanted to make is that I think it is wrong to suggest that a shipper has to prove he is a captive shipper. All he has to do is to assert that he is a captive shipper.

An hon. MEMBER: He has to prove that?

Mr. PICKERSGILL: I am talking about the captive shipper who would have available to him the maximum rate. All he has to do is to assert he is a captive shipper. I do not think it is fair to say the burden of proof is on him. I think the commission would determine whether or not a monopoly situation did exist. If indeed we are putting an undue burden on the alleged captive shipper by suggesting that he has to make proof rather than make an assertion this is something I would like to look at further. I quite agree that there might be shippers who do not have the resources and facilities and they are the ones we are most interested in protecting. It seems to me that if they assert that they are captive shippers the commission should then determine, on the basis of the facts that will be available, or that the commission can find out for itself, whether that assertion is correct, and there should not be that kind of onus, if indeed, there is. I think this is a point I would have to discuss with the draftsmen before I could comment. But, I do think it is quite important and if there is any doubt about it—this is the first time the doubt has been clearly stated—I would like to clear that point up.

Mr. Mauro referred to the 1.7 per cent of the tonnage and approximately 4.6 per cent of the total revenues in railways which are now covered by the present class rates which are the present maximum rates available. In that context he used a couple of times—I marked it particularly at page 51—the word “denied” in respect to railway costs data. I do not think we want to get into a sterile quarrel about this, but I have invited, and the Prime Minister has also invited, any witness to furnish a statement that he was a captive shipper within the meaning of the present bill. I think up to now the Wabush Iron Mines and the Coal Operators of Western Canada are the only two people who have made that assertion, and I would prefer not to express any view about whether they would be captive shippers under the present law; but in neither case, I think, are they paying the present maximum rates. Up to now there has not been a single shipper who pays class rates who has appeared before us directly or indirectly and has asserted that he would be likely to be a captive shipper under this legislation and would likely be injuriously affected by it.

The most fundamental point that I observed was on page 50. This I would like to take a moment or two about. That point is with reference to the 30,000 pounds. Well, the 30,000 pounds, as I understand it, is regarded as a sort of maximum weight for a truck, a kind of notional standard weight. What the MacPherson Commission appeared to be seeking to do was to create a notional or artificial concept of competition where no actual competition existed. They seem to have taken the view that the competition which should be envisaged was competition by motor trucks. After all, it is not likely that we will get much water competition in western Canada, except possibly on Lake Winnipeg or the new lake which is being created in Rosetown-Biggar. There is not much water



competition in western Canada. The air competition up to now has not been a competition in rates but a competition in efficiency and, of course, air freight was much less developed when Mr. MacPherson made his report than it is today. That is where the 30,000 pounds came from. It was to try to simulate, if I may put it that way, a competitive situation. That is, of course, precisely what Mr. MacPherson recommended should be done in the words that Mr. Mauro quoted. The key weight upon which it is reasonable to base a maximum rate, he said, is the rate of the unit load the competing carrier could use to give his optimum rate. That is where it came from. It is not mythical—well it may be mythical but it is not mysterious. I believe that clears up where it came from.

Mr. Mauro went on to say the statement of the MacPherson Commission was a contradiction in terms and this is, I think, the first time any witness has come before us who has so expressly said we should not use the basic concept of the MacPherson Commission in establishing the maximum rate. Now, if we had not done so—I am just posing the problem—we would have had to create some other criterion. Now, another criterion is suggested in this submission. It is one that is very interesting and I think deserving of very serious consideration. But, I would be troubled about the possibility, if we are to have any legislation at all in the year 1966—and, as members of the committee know, I have been under quite a lot of criticism because I have been nearly three years as Minister of Transport and up to now I have been so inefficient that I have not been able to get any legislation passed to deal with this matter—I would be very reluctant to be frustrated at this stage because of our desire as Members of Parliament to substitute ourselves for an inquiry to find a new formula better than the basic one suggested by Mr. MacPherson. That is not to say we have not made some modifications in the MacPherson concept, because we have. Amendments to that basic concept are never ruled out. But to try at this stage to start looking for a new concept, I think, would be to propose a task that would mean we would not be able to legislate this year. Now, that is why there is in the bill the provision that the operation of this formula must be reviewed. I think I indicated, when two other witnesses were here from Manitoba, that if that period of five years seemed too long to be practical or to be reasonable, and if we could find a practical shorter term, then I would be quite happy about that. But I would find it a little difficult to abandon the basic concept altogether and try to find something else that I would be satisfied we could put in its place in the time available. I do not think I should say any more than that because I think that is pretty fundamental.

Then there are a couple of other small points on page 54; indeed, the whole section about permissive earnings. My understanding is that permissive earnings of the Canadian Pacific Railway, on which rate determinations have been made in the past, do not represent an absolute control on earnings at all. That is simply a criterion by which the Board of Transport Commissioners decide whether any rate increase would be justified. If the railway was making more than those permissive earnings I think they would say, "You are not justified in applying for an increase". I believe that if they substantially exceed them a shipper or a group of shippers could go to the Board and say their rates should be decreased. But I think once or twice in Mr. Mauro's presentation he rather gave the impression that it was against the law for the Canadian Pacific to earn more than this amount from its rail operations. That is not true, and I think it would be an

impossible situation if it were true. We are telling them to go into a competitive environment and to compete as effectively as they can so that they will not be a drag on the taxpayers and so that they can provide efficient service to their shippers, and it does seem to me that it would just be turning the whole thing around again to say that in their competitive operations their earnings were to be limited. In other words, so far as the competitive operations of the railways are concerned, we are saying in this bill that they have to go out and compete. We surely are not going to say in the same breath that we deny them the fruits of competition. Where we want to exert the control on them, and the only place where we do, is where they are not competing, where they have a monopoly situation. There, I think, they should be regulated just as severely as a telephone company which is given a total monopoly, or as a public utility like hydro. But in the area where they are competitive it is surely quite desirable that they should be free to earn as much as possible so that they will not have any case for coming to the public treasury for relief in the provision of rates on which, perhaps, they would not make much profit in the area where there is no competition.

Then, on page 59 where Mr. Mauro begins to deal with the appeals clause, I have a comment. When I started listening to the submissions before this committee and when the committee began considering this bill I thought the maximum rate formula was the most contentious thing in the bill. I have reached the view that the appeal clause is more important. No maximum rate formula that we could possibly devise is going to be satisfactory in dealing with the big shippers with commodity rates. We do not want—certainly I do not want—to provide shippers of that kind with an advantage written into legislation in bargaining against the carriers. It seems to me that we ought to leave them free. I do not think Parliament should try to give the International Nickel Company, for example, a legislated advantage in its bargaining with the Canadian National Railways. On the other hand, we do not want them to be victimized just because they are a big company. I do not belong to that school of politicians. I do not think there is anything inherently evil in the International Nickel Company just because it is a big company. What I say we ought to try to do here is to make sure that we have some provision whereby the railways cannot, and I think I know what Mr. Mauro had in mind—say that the pulp and paper rates in one province will be such that that operation cannot compete because of rates given to another pulp and paper operation in another province. This is not a wholly theoretical matter, as Mr. Mauro knows.

On the other hand, I was very pleased and relieved by the honest, frank and straightforward statement Mr. Mauro made that Manitoba was not asking that the natural advantages of geography be legislated away. It seems to me that it would be a quite unreasonable exercise of our jurisdiction, unless you are going to have a totally planned society to say that we are going to use the railways to overcome, for exactly similar businesses, the natural geographical advantages one region has over another. Once or twice we tried in export businesses like the grain business to remove certain disadvantages by legislation. I was unreservedly in favour of doing that and I am just as strongly in favour of it as anyone who represents or still lives in the Prairies. But to give to one corporation, operating one kind of business in one place, by what might be described as favouritism, an advantage that destroys the geographical advantage that another has would be intolerable. If the government wants to do that as a

matter of policy it should not be done, I think, by the operation of transport legislation. It should be done by some device like the Maritime Freight Rates Act which lets the transport agencies operate as transport agencies and then as a matter of public policy provides an offset to regional disadvantages. I think Mr. Mauro and I are not in any disagreement on this matter at all. And it is very fundamental.

As I have indicated already, we are looking at the appeal clause. I do not think it is satisfactory in its present form and we are looking at the appeal clause very carefully and discussing this with the draftsmen in the department of justice. I cherish the hope that we can find a formula which will prevent endless, vexatious and frustrating appeals to the commission and which will ensure the very kind of thing we all want, namely, to deal with the real problems. But it will ensure that any one who has a really genuine complaint of unfair treatment within the limits I have suggested will have recourse to the commission. I think this is far more important than the maximum rate formula.

Let me put it this way, though this may sound pretty far-fetched to some of the members of the committee. As I have studied this bill and listened to the submissions, I was reminded that the last time I checked up, and I do not do this habitually, there had not been a murder in Iceland for 150 years but it is still against the law in Iceland to murder people. No one has suggested that the law against murder be repealed. On the same premise, I think that, even though we may never find a captive shipper who will come forward and want to take advantage of the maximum rate provision, if it were not here, if we did not have some protection of this kind, there would be, at any rate theoretically, an opportunity for the railways to set rates which might create real hardships. But here is a limit beyond which they will know they cannot go. My guess is that, in most cases, they will not go to that limit because they will prefer, under the freedom they will now have, to set rates that would be below that level. It is still there as a protection, but, to meet the main problem that Mr. Mauro mentioned and that was mentioned in the brief from Saskatchewan and was mentioned by the Pools and by a number of other witnesses before the committee, I think it is to the appeal clause that we should really look. We are working very hard on that.

I do not think I really ought to say very much about the question of cost data beyond saying that I would certainly agree with Mr. Mauro that whatever we may do about the cost data provided by the railways, there should be no inhibition upon the complete discretion of the commission to publish its own cost data that it produces for itself. I thoroughly agree with what he says in his brief on page 70 where he commends the MacPherson Commission for its statement that national transportation policy should equip the Board of Transport Commissioners, and for that I substitute the new commission, with the most efficient costing section that is possible, staff it competently and provide it adequately with the necessary data from both public and private firms. I think it is one thing to say they should protect the confidentiality of information provided to the Commission by other agencies, but I certainly do not think they should be limited in the publication of their own conclusions from that, or in the publication of what they generate themselves, and there is no such prohibition in the bill.



Then, I come finally to the references to the dangers of possible monopoly in another field and that is the field of research. As Mr. Mauro knows, I am an old academic and I believe in research. I believe we have not done nearly as much as we should. I think we should try, in a voluntary way, to co-ordinate research activities so that we do not wastefully repeat the same exercises in two or three different places. If I thought that this transport commission—I do not see how it would have the power in a free society anyway—was going to try to monopolize the field of research in transportation I would withdraw this bill at once. What it is my hope it will do is to provide a focus and a centre. I think I would like just to deal very briefly with the fear that has been expressed by many people and especially by the railways—an understandable fear—that there might be a confusion of the administrative and regulatory side and the research side of the commission. Since there will be a common president but no other common officials—it really is two bodies with one head—I hope that their research will, in that way, tend to be channelled in some more practical direction. The president, through his general oversight of the administrative functions, will know the problems that ought to be studied. He will be able, therefore, to suggest directions in which research is necessary and would likely be useful in the public interest.

I sincerely hope that the research staff of the commission will not be a large staff. I hope they will resort for their actual studies mainly to the universities and other bodies where it can be done in a more reflective way. I have expressed the hope in public in Winnipeg, which I suppose is not wrong for me to repeat here in Ottawa, that my own old university, which is in Winnipeg and is beginning to do something in this field, will be inspired by the government of Manitoba and I mean inspired by the treasury of Manitoba, to do even more in this field.

The CHAIRMAN: Thank you, Mr. Pickersgill. I intend to adjourn the committee at one o'clock. I have Mr. Andras, Mr. Olson, Mr. Sherman and Mr. Cantelon on my list. Mr. Andras?

Mr. ANDRAS: I pass.

Mr. OLSON: Mr. Mauro, I want to ask a number of questions. I am not going to keep the committee until one o'clock, but I wonder if I may be permitted to make this comment at the outset in respect of what the Minister of Transport has just said.

I, too, am cognizant of the time factor involved in trying to get some legislation passed in this session, for two reasons. The first is that I think that there is a need for some legislation, and the second is that if we do not pass it in this session we have to start all over from the beginning in the next session. We have already been through that exercise a couple of times. I also believe that the Minister will agree that it is the primary function of this committee to attempt to anticipate the results of legislation that we recommend to the House of Commons; and particularly referring to Clause 336, if we are going to try to anticipate the application of maximum rate controls and the authority given to the new power commission to exercise or to administer that authority, then we have to use, and we have no other choice but to use, the exact formula that is laid out in that section. All I would suggest to Mr. Pickersgill is that though he is apprehensive about the time factor involved in getting new legislation dealing

with maximum rate control through this session—as I said, I share that with him—he could probably agree to some amendment to section 336, as has been suggested in this brief, so that this artificial 30,000 pound load will be changed to actual, and the other two suggestions incorporated, perhaps not with the exact wording that has been laid out, but at least, then, we would be working with a formula that was in fact actual rather than artificial because, as has been pointed out by Mr. Mauro, it is no longer anywhere near actual, and we have to use that figure as a starting base before we arrive at the end result of any maximum rate control.

As I look over the bill—and perhaps I am wrong, but I do not think so—I see that under the present bill the transport commission will not have any power to set rates except under Clause 336 and the wording that is there, or under clause 317, and there you have to prove public interest. It is not yet clear to me how you go about doing that. Therefore, Mr. Chairman, I just wanted to say that there might be some amendment that could be incorporated into this bill and still we would get it through in this session.

I want to ask Mr. Mauro one question because I know he has studied this matter. My question is: How would you go about proving the public interest was such suffering if you felt that you were being discriminated against. You have to assume that you are a shipper. I have considered this and discussed it with a good many people who are competent in considering this matter, and so far I have found no satisfactory way of determining how you would prove that the public interest would suffer because you felt that you were being discriminated against in rates.

Mr. MAURO: That is the reason, Mr. Olson, why we are suggesting the amendment that appears in our submission, because we could find no indication of criteria for determination of injury to the public interest. We could find the negative one, that private interest was not public interest. We can find certain jurisprudence that would indicate that private interest is definitely not public interest. We do not seem to be able to find the positive side of what is public interest, short of what the party who has the authority to determine it decides upon. It was for this reason that the province suggested the amendment to clause 317 to make it clear that the discrimination and the undue preference was broader than a determination of injury to the entire public and could apply. I think the Minister has indicated that they are looking at this clause, and I am sure the intention was to give us broader application than that; because you could not even see the situation where a province might come forward, and surely if anyone could indicate a public interest, it would be Her Majesty, in the right of the province of Manitoba, coming forward and saying, "In our opinion, the public interest has been injured by this act of the railways." That may be a very interesting comment, but the public of Manitoba is not the "public" envisaged in the bill.

Mr. OLSON: Mr. Chairman, there are only 7 or 8 minutes left. Would you put, my name down on the list again.

The CHAIRMAN: There are only 2 minutes left.

Mr. OLSON: I will pass for now, because I have a number of other questions.

The CHAIRMAN: I would suggest that we come back at 3.30 this afternoon to finish with the witnesses. Mr. Mauro, Mr. Spivak and the other witnesses have to catch a train to Montreal for their CPA flight this evening.

I would like to have a motion to appoint another vice chairman. Our vice chairman has had to go on a certain excursion.

It is moved by Mr. Andras and seconded by Mr. McWilliam that Mr. Lessard be elected vice-chairman.

All those in favour?

Motion carried.

We will adjourn until 3.30 this afternoon.

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### AFTERNOON SITTING

THURSDAY, November 17, 1966.

The CHAIRMAN: Gentlemen before we continue with the questioning, Mr. Mauro would like to make some comments on the Minister's closing statement.

Mr. MAURO: Mr. Chairman and members of the Committee, I thought perhaps it would be more efficient if I dealt with the statement of the Minister before meeting any other questions which the members of the Committee might have.

In the first point raised by the Minister he referred to the possible ideological difference relative to our statement on page 22, that the bill envisaged a cost oriented rate structure and he said, since he was the drafter of the bill, he perhaps was best able to tell us what was envisaged and I accept that, and that based on the MacPherson Commission Report it was not cost oriented. With respect to the Minister, while I will not question what he envisaged in the bill, if the bill, as he said, was based on the MacPherson Commission Report, then I say it is a cost oriented rate structure. In our submission, at page 64, we have quoted the relevant section of the MacPherson Commission Report. You will note that the quotation starts at the foot of page 63:

The great strides made recently in the techniques applicable to the costing of rail movements give confidence and precision to the rate-makers. There is no reason to expect that these techniques will not be further refined particularly if railway accounts are set out to aid in the process.

And then I underline this:

For the media of transportation within the new competitive environment the pricing of services on a cost-oriented basis has become inescapable.

We regard this change to a more cost conscious pricing policy in all modes of transportation as consistent with the objectives of the National Transportation Policy.

So that, with respect, I suggest that if in fact Bill No. C-231 is based on the MacPherson Commission Report, it is in fact a cost-oriented rate structure that we are heading towards. The Minister agreed with the fact that the prime purpose is the public good. He agreed that the branch line sections would be amended to make sure that there would be hearings on the cost data submitted



by the railways. The Minister agreed that regarding the commuter services, there is an inconsistency and amendments would be forthcoming relative to commuter deficits. Similarly as to the Churchill rates, if my notes are correct, the Minister said if anything further had to be done to assure the rates on export grains to the port of Churchill, that would be done. The next item that the Minister raised, that I would like to comment on, is the matter of section 336 where he said that

I perhaps have misread the section in that there is no obligation on the part of a shipper to prove that he is in fact captive. He need only assert he is captive.

Now, I am perhaps too sticky on what that section says, but as I read Section 336—and I might say that the Minister said if in fact it was correct that the section placed an onus on the shipper to prove that he was captive, then he wanted to make sure that was not the case—what I say, members of the Committee is that I do not think there is any other interpretation that you can give to Section 336. Section 336 presently reads:

A shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier apply to the Commission to have the probable range within which a fixed rate for the carriage of the goods would fall determined by the commission—

Subsection (2) reads, at line 31,

—and the commission may after such investigation as it deems necessary, fix a rate equal to the variable cost—

And so on.

Now, it seems to me that the only logical steps are that a captive shipper applies to the commission and the commission has to make whatever investigation it deems necessary, but it has to determine whether or not he is in fact captive, whether he in fact has any alternative effective, competitive service. That surely is not just a discretionary power of the commission; I would hope that the commission would permit the shipper to come forward, and I assume the onus would be on the shipper to prove that he was in fact a shipper for whom there was no alternative, effective carriage of goods other than by rail. I cannot see, unless I am misreading the section, that it can be interpreted in any other way; that there is the onus now, under this bill, placed on a captive shipper to prove that he has a right to the maximum rate.

Now, there have been comments, and the Minister repeated them, that the Prime Minister has invited people in Canada to indicate whether they are captive shippers. Apparently nobody other than coal dealers and the Wabush Iron Company have presently come forward to declare themselves. The Minister said that no shippers presently paying maximum rates have come forward to indicate that they would be captive under the bill, and he went on to say that it is somewhat analogous to the rate of murder in Iceland. There have been no murders in Iceland for one hundred and fifty years, but they keep the law there. It is not really going to be effective for any particular purpose, but it is a good thing to have on the law books. With respect to the analogy, I suggest that the existence of laws against murder frequently reduce the number of assaults. They are effective in the case where the person makes a mistake and only wants

to hit the person, but it results in death. They are a factor in the total concept of criminal justice.

Similarly the province of Manitoba approaches maximum rate legislation, not from the standpoint of killing business, but we are trying to protect the situation where railway pricing could kill industry. We are trying to set up an environment where we restrict the injury done to business by railway pricing, by transportation pricing, and that the maximum rate formula within this context tends to create an environment where we can have industrial development, not the killing of existing industry, but an environment in which industry can develop in some of the regions of Canada that are, relatively speaking, underdeveloped.

Now, comment was made about our formula relative to permissive level of earning, and the Minister said that under the present act it is not illegal for the railways to earn more than the permissive level. That is correct, if they earn more than their permissive level they cannot be charged with a breach of the Railway Act. Our formula does not change that. Under the present railway bill, if the railways earn more than the permissive level, there could be an application to have rates reduced, and that would be exactly the situation under our bill. We are not changing any of that. Let us make clear, in this area of class and non-competitive commodity rates, the railways today can raise all competitive rates. I should be realistic about the situation.

They raised the competitive rates 10 per cent a short while ago. They are obviously not going to raise the class rates because they represent a relatively small percentage anyway, so what is the area that the railways want to get at. They want to get at the non-competitive commodity shipper, because today they could raise their competitive rates. They do not need any act of parliament. They do not have to have any removal of any freeze to raise their competitive rates. It is this area of non-competitive commodity rate shippers that they want to get at, and it is this area that we must protect. You do not protect them by saying, nobody paying class rates today has complaints.

The province of Manitoba is not going through this exercise to protect one per cent of the shipping public. We are going through it as we went through it in the years since the second world war, because we say this area of class and non-competitive commodity shippers was paying a disproportionate part of the railway burden. If you restrict the exercise of the maximum rate formula to apparently this nebulous group, it is to all intents and purposes probably as effective, as the Minister says, as the utilization of the sections on murder in Iceland, but I think it was meant to be more than that and I think the report of the royal commission report intended it to be more than that.

I was pleased with the Minister's comments on unjust discrimination. I do think it is a most important section and the province of Manitoba will await the amendments that apparently are forthcoming on this. I think that the Committee will realize, as they study the problem and are advised by its economic consultant, that the relativity of rates is tremendously important.

There are rate relationships from intermediate points, such as Winnipeg to Toronto, vis-à-vis say British Columbia to Toronto, and from Winnipeg to British Columbia vis-à-vis Toronto to British Columbia, and you could transfer any intermediate point, replace Winnipeg with any other point. These matters are imperative in the area of unjust discrimination if these regions of Canada

are going to have an opportunity to compete in the central market of Canada and in other markets in Canada. The Minister said that they will do everything possible to remove geographical disadvantages, but not geographical advantages. I endorse that to the limit that there is no unjust discrimination practised, and the province of Manitoba has consistently said that they seek no geographic advantage which is not theirs; on the other hand, they do not like to have the few geographic advantages they might have destroyed or frustrated by railway pricing policies.

I was interested in the statement that we should not be concerned about any prohibition on the part of the commission in publishing cost data, its own cost data; that what the bill is intended to do is to make sure that the commission does not publish any of the railroad cost data and, if the Committee is convinced that that is the situation, then that critical position of the province of Manitoba is perhaps answered. I can only say that section 387C, as it presently reads, paragraph 164 of our submission, states that:

Where information concerning the costs of the railway company or other information that is by its nature confidential is obtained from the company by the Commission in the course of any investigation under this act, such information shall not be published or revealed in such a manner as to be available for the use of any other person.

If in fact the commission will have the power of making studies, such as cost scales and burden studies equivalent to those produced by the ICC and publishing those, then the criticism of the province of Manitoba will indeed be met.

Those I think were the salient points raised by the Minister, and I hope that I have confined this reply to the position of the province on this.

Mr. CANTELON: I must say that the Minister and Mr. Mauro together have pretty well covered the questions that I was going to ask I had one on research and the Minister has answered that. I had one here and perhaps a little might be got out of it. The Minister in talking about 30,000 pounds weight unit of cars said that this was—I think he used the word—a mythical system of transportation where no such exists. However, what bothers me is the maximum weight of trucks—

The CHAIRMAN: Mr. Cantelon, it does not seem to me that this Minister would use the word "mythical".

Mr. CANTELON: Well, it is mythical so far as the railroads are concerned. What bothers me about that is that the cost of large loads of 120,000 pounds can be charged at a cost which is very far from being notional or mythical or whatever you want to call it, and I wondered if you would care to comment any further on that, Mr. Mauro.

Mr. MAURO: I think that the submission sets out pretty fully, Mr. Cantelon, the absolute resistance that the province of Manitoba has to such national pricing. We feel that in fact it is a meaningless exercise if one is dealing with railway pricing. The Minister said that they thought the truck capacity was a better notional approach than water capacity, but I can think of many people in Ontario—I am not representing them—for whom the water transportation figure would be a far more legitimate figure. You take the capacity of a ship vis-à-vis from Montreal to Fort William and any intermediate points. It is far more



notional if you wanted to choose one than a truck capacity; so that it struck me as incongruous that when we were taking this new approach to a rates system reflecting the inherent advantages of rail, you should start it out on a basis that had nothing to do with rail, this notional quality of 30,000 pounds. To me it was irrelevant, and what we have set out in our brief, I in spirit repeat, namely, that it bears no more validity in costing rail maximum rate on a notional truckload than it would be in due course in costing a truck movement on a railway notional rate. This may be forthcoming in due course if we are going to have this super board governing these. The trucks should not be bound into a rail movement because the trucks have obvious advantages of speed, movement, short haul, and the inherent advantages of rail should be made available to the people of Canada.

Mr. CANTELON: The other thing that I was concerned about in this connection was this 150 per cent that is used on top of the variable costs. This is of course quite an arbitrary figure and I believe was arrived at by the MacPherson Committee.

Mr. MAURO: Yes.

Mr. CANTELON: I would be pleased to have your comment on the amount of that 150 per cent.

Mr. MAURO: We had great difficulty. Nowhere in the commission's reports could we ascertain where the commission had determined this benchmark of 150 per cent above long range variable cost, and it seemed to us that if one were now attempting to design a new alternative class rate structure that the MacPherson commission alleged it was doing, there should be some benchmark for the benefit of both shippers and railways. I see no more advantage to the railways to be bound into a rigid 150 per cent factor than I did for the shippers. Therefore we went back and attempted to assess from the data we have available what was the mark-up over variable cost.

The brief attempts to set forth the only guideline we had and that was a relationship of the permissive level to freight variable cost and we came up in our calculation with the number of 110 per cent. I do not think there is anything any more significant in our method than in some other method as long as there is a method that is meaningful, that the percentage mark-up had some relationship to something instead of just a number that you draw out of the air.

Mr. CANTELON: We understand that in this particular connection, the railways themselves have pointed out that this 150 per cent is meaningless; that people who might conceivably be expected to use it will not use it because they have been able to negotiate charges which are lower than that charged.

Mr. MAURO: Of course under the weight of the formula as presently set up, we certainly agree that this would affect very few people in Canada because the cost created at the upper levels are so astronomical. Now, do not let me leave you under the miscomprehension that there are not rates presently in effect, competitive rates, that are returning higher than 150. In certain regions and certain short hauls and certain comparative areas, the railways have these inherent benefits and shippers are satisfied, and they are paying rates that represent 400 per cent above out-of-pocket costs in a competitive environment, but not if we were to cost it out at 30,000 pounds. This is why I say that in the area of the captive

shipper, there should be a mark-up which assures the shipper that he is not making a disproportionate contribution to overhead, and in addition is an inducement to the railway to bring in efficiency. They are the beneficiaries of any efficiency.

Mr. CANTELON: Well, would this not mean then that you would cost out your 150 per cent probably by classes.

Mr. MAURO: We went through a whole series of possible alternatives in the contest of the formula presently before the Commmttee. The only practical alternative that we felt we might present is the one that appears in our brief, namely, that you would cost the actual cost. If the traffic was moving at 120,000, such as some of your movements of potash, sulphur 140,000, you would take those loading characteristics, you would cost those out, you would then determine your mark-up based on this relationship of freight variable, and you would then add a factor to that representing one-half the savings based on this relationship of freight variable, and you would then add a factor to that representing one half the savings at the 140 as opposed to the 30, so that the railway would receive a definite benefit from the higher loadings, just as the shipper would.

Mr. CANTELON: In this connection, I wonder if I might be permitted to ask Dr. Armstrong if he would care to make any comments on this particular problem of the 150 per cent.

Dr. Donald ARMSTRONG (*Economic Adviser to the Committee*): Well, it is not easy to generate a quick answer to that because the philosophy of the submission we have had today and the philosophy of the MacPherson Royal Commission Report are quite different. In one, in the presentation today, the railway is conceived basically as a monopoly, as a utility, and is approached in that way, and if you approach it that way, I think the arguments made here are very good ones. If, on the other hand, you accept the proposition that railways probably have no higher degree of monopoly than General Motors or INCO or a limited company or almost any large company, that you can mention, then you just arrive at a different set of conclusions.

The purposes of the floor and ceiling are quite different. The 150 per cent suggested in the MacPherson Commission Report was arrived at by a process not really of trial and error, it is a very pragmatic thing, as was the 30,000 pounds for that matter. If it is true, I think this is something we might spend some time on later, but that the railways are basically competitive and as competitive as most other industries, then the purposes of the floor and ceiling are really just that—a floor and a ceiling—within which the railways are free to operate in a more conventional commercial sense.

Mr. CANTELON: I think what is really concerning me there, and I think probably concerning a lot of the rest of us is whether this so-called ceiling is really going to be effective, or whether it is at a proper level, or whether it should be below that.

Mr. ARMSTRONG: It is going to be effective. There have been quite a few statements about captive shippers and whether there are any. I think these have tended to be misleading because everyone had in mind a different concept of the term. If you ask me, are there people now who are paying a rate in excess of

variables plus 150 per cent and will therefore benefit from this act, the answer is definitely yes, there are a number of shippers, and they are not just class rate shippers either. Some people's rates will come down.

Mr. CANTELON: Will they be captive?

Mr. ARMSTRONG: No, not necessarily, because they will have to argue with the railways about their rates. If the railways are smart, they will lower them voluntarily rather than fight the case out.

Mr. CANTELON: How can they come down if they cannot satisfy the board that they are captive? I do not follow that.

Mr. ARMSTRONG: Well, what the shipper has to do is go to the board and ask for what is in effect a cost estimate. The board gives them the cost estimate. Now, if they are paying something higher than that they go to the railways.

Mr. SOUTHAM: May I ask a supplementary question, Mr. Armstrong? I think it would help Mr. Cantelon in his questioning. You, in your opening remarks, in reply to Mr. Cantelon's questions about captive markets compared the railways to big companies like International Nickel and so on. I do not think you can do that because I do not think they are in the same field at all. I think large mining companies that have to depend on world markets have plenty of competition to regulate their prices; whereas transportation is a vital thing to our own Canadian economy and national interests. We have large numbers of people who are captive to that particular type of transportation, so I do not think you can make the two comparisons.

Dr. ARMSTRONG: You are using captive in a different sense. If they are captive within the meaning of the act, if they are potentially captive in the meaning of the act, they are people who are paying 150 per cent on top of variable at 30,000 pounds. This is the definition of captive. If they are captive in that sense, they will go to the railways, and the railways will probably—if they are smart—lower the rate. So it gives protection to these people in that way.

Mr. MAURO: That is not the test. The other point is that we definitely, definitely approach the pricing of transportation in a way other than we would approach the pricing of General Motors or INCO. We still in Manitoba feel that the railways are closer to a utility in regulation than they are to INCO, and I might say that the question of competition, the maximum rate formula is only meaningful in the area where there is not competition. That is the very function of the section, so to discuss the economic pervasiveness of competition in the area of maximum rate control is a contradiction in terms, because it will only apply where a person can prove that he has no effective alternative mode of transport.

Mr. SHERMAN: Mr. Chairman, Dr. Armstrong says no to that last statement by Mr. Mauro, and I would be interested in giving up part of my time to hear Dr. Armstrong's answer.

Mr. ARMSTRONG: Well, I think Mr. Mauro is taking an oversimplified view of competitive reality. Competition is not something which exists in one room and monopoly is something which exists in another room. There is no such thing as pure competition and pure monopoly; we are dealing with matters of degree, and when we lose that idea, then we start talking nonsense. There are degrees of monopoly. If you asked, if somebody is competitive and somebody else is



monopolistic, I just cannot give you an answer to that. There is no such thing in the world as pure competition for anyone. There are degrees of monopoly; that is all, and we have to approach every problem of regulation in that spirit. We say we are not going to concern ourselves with every person who is not in perfect competition. If we do we are in a command society; we are setting the price of everything. We are going to say, we are going to concern ourselves with the extremes. If there is something which is out of line where we think regulation is necessary, we bring it in, we are very pragmatic about it. There is no situation in Canada where there is no transportation alternative. It just does not exist. There is always an alternative; the problem is cost and one of degree.

Mr. MAURO: This would be ideal if Dr. Armstrong is going to be the person applying his discretion to the interpretation of the phrase "a shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than rail". And to hear Dr. Armstrong tell us that the price-cost relationship does not matter, it is a question of degree, I suggest that the royal commission itself concluded, and I quote them: "Our examination has clearly shown that a rational and objective measure of the degree of significant monopoly can be based on the relationship between cost and price". The bill does not do this, though. The bill does not say that you can look at the man's rate and if he is paying a certain rate, that in itself will be a criterion of captivity. If the bill did, then this would be a very interesting discussion between Dr. Armstrong and me. The bill makes it very clear that there has to be this proof of no alternative, effective, competitive service.

The CHAIRMAN: We are getting a little out of hand here. We will keep on with Mr. Sherman.

Mr. SHERMAN: Well, Mr. Mauro, would you agree that the part of the nub of the whole question, of the whole controversy, over the meaning of this proposed legislation lies in the definition of the term "captive shipper", and Dr. Armstrong says that within the meaning of the legislation, the captive shipper is anyone paying 150 per cent above variable cost? Potentially captive shipper. Would you agree that this is not necessarily the definition of captive shipper in terms of the point of view of the western provinces?

Mr. MAURO: I would think that if the railways thought for a minute that any shipper in Canada who was paying 150 per cent above long range variable was a candidate for captivity, you would have heard much longer submissions from the railways on the application of this formula. You may recall every bit of evidence that you have had from the Prime Minister to Donald Gordon and to Mr. Sinclair, was to the effect that they can think of nobody who is captive now. Dr. Armstrong says that in his opinion anyone who is paying over 150 per cent is a captive. Now, if I can accept Dr. Armstrong's appraisal of the words "no alternative—and in my studies "no" was not a word of degree; it was a universal term as I studied it—to such a service", if I can accept Dr. Armstrong's view as opposed to Mr. Gordon's, the Prime Minister's, the minister's, then he encourages me. He does not make me sleep any better, but I would say, "Men, let us change it so that there is this reality in the legislation". But at present I do not think it exists; I cannot accept it.

Mr. SHERMAN: Now, the government has said, and the president of the CNR has also said, that in the case of a shipper's application for classification as

captive, in determining the maximum rate that that shipper will subsequently pay, the government will, or the Canadian Transport Commission will simulate competition. This is the impression that is apparently implicit, or that one is supposed to infer from section 336, that it will simulate competition for that shipper. What do you understand by that?

Mr. MAURO: I say that simulate is a proper term. It is notional, fictional, thirty thousand pound movement by truck. I find it inconceivable to consider that the movement of such bulk commodities as are now moving by rail at the heavy loading hundred thousand, hundred and twenty, hundred and forty thousand pounds per car, can be simulated as a truck comparable rate. and I think it is bad economics to simulate them because you are denying the inherent advantages of rail carriers in so doing. That is what was intended to be the thrust of the Manitoba submission.

Mr. SHERMAN: You are not satisfied with this form of simulation?

Mr. MAURO: Not at all.

Mr. SHERMAN: a great deal has been said, written and argued about the impact of the maximum rate formula, and the necessity for our having available to us the variable cost data of the railroads. In your presentation you do a considerable job of assessing the impact of the maximum rate formula on certain shipments. How is it possible for you to arrive at this assessment without the cost data which you requested, and which the Committee requested and did not get.

Mr. MAURO: Well, as in most cases, Mr. Sherman, we are tempted to use the best data available. We had a considerable amount of information attained during the cost study of the movement of grain, and we were able to transpose some of the coefficients on various categories of costs. We assessed this. We looked at, in the case of one of the examples that we have in the submission, the cost data published by the I.C.C. for a relatively similar type of movement, although the costs are not identical. I do not think the railway cost variability is the same as in the United States. That is why it would have been better for us, and I think for the Committee, had we been able to indicate conclusions based on Canadian cost data, not only from our standpoint but because, for instance, of our formula. It might be, and I do not foreclose this possibility, that any given formula would have a detrimental effect on railway revenues. You would want to assess this. The only way you can assess this is from seeing what would be the result of specific movements in the cost formula indicated. It was for this reason that we had asked for the information. We did the best we could.

Mr. SHERMAN: With respect to your tables, Mr. Mauro, pointing out the impact of horizontal percentages, which are contained on pages 41 to 43 of your brief, I was wondering what mileage yardstick is used in those comparisons.

Mr. MAURO: These comparisons of average rate per ton?

Mr. SHERMAN: Yes; there is no—

Mr. MAURO: If you turn to page 41, you will see the mileages are in the fourth column. Cereal foods, east to west 1965, the average haul was 2,018 miles, and east to east 330 miles. So the average haul is listed in the various columns.

Mr. SHERMAN: And the subsequent two pages are the breakdown of the major categories?

Mr. MAURO: Well, in the subsequent two pages there are all listed movements to and from Manitoba. They would be varied mileages.

Mr. SHERMAN: In the tables on page 45, showing the different types of rates, you take a category, for example, like western to maritime rates, class, and then non-competitive commodity and then normal, western to maritime?

Mr. MAURO: Yes, well that would be a movement—there is no mileage fixed, anywhere west of Fort William to anywhere east of Lévis, Québec. These are movements from complete territories, and there is no specific mileage fixed. This is average rate per ton.

Mr. PICKERSGILL: Could I ask a question about this, if you do not mind my interrupting, just for clarification. These rates then would be for quite different distances?

Mr. MAURO: Yes, the mileage—

Mr. PICKERSGILL: It is not per ton mile?

Mr. MAURO: No, no.

Mr. PICKERSGILL: No matter how far it goes.

Mr. MAURO: Well, yes. And obviously a rate from the central to central, one would assume would include shorter hauls than a rate from maritime to western. But this is right from the waybill analysis. These are the indices indicated in their average rates.

Mr. SHERMAN: But in taking the same category in terms of distance in each case, western to maritime, for class rates, for non-competitive commodity rates and then for normal rates, there is a fantastic discrepancy in the amount. Western to maritime under class rates is \$108.20. On non-competitive commodity rates it is \$30.54, and on normal rates it is approximately the same as for non-competitive commodity rates, \$32.71. The class rate is \$108.20; is that a mathematical computation or are there actually shippers paying that rate?

Mr. MAURO: Oh, sure, sure. This is from the waybill analysis as being the average rate per ton, of the class rated shippers moving from western territory maritime. But the mileage factor is only one factor in rate making. The others are characteristics of movement itself, all of the various factors, the commodity, the value of the commodity, the perishability of the commodity. There are any number of these. The table is submitted to indicate these very wide discrepancies, and the factors incidental to the position of shippers in the various regions, the pervasiveness of competition.

Mr. OLSON: Mr. Chairman, on page 26, Mr. Mauro restates the position that we have heard from Manitoba a number of times, and that is that the freight shippers should not bear the deficit of low density traffic lines, or whatever you want to call it. It is a deficit because there is a low amount of volume that is carried there. And now you have been commendably candid and succinct in your brief and in your statement and I would ask you if you would continue in that vein and tell us who you think should pay these deficits?



Mr. MAURO: I can speak candidly, because I think we were candid to the royal commission and again I hope to this Committee. It is our opinion that if a line is a deficit line, unless it is to be maintained in the public interest, the railways should be permitted to abandon it. If the commission comes to the conclusion that for economic reasons or social reasons, that line should not be abandoned, then there should be a charge on the public treasury and the railways should be compensated for it.

Mr. OLSON: Which public treasury?

Mr. MAURO: There is only one that the province of Manitoba looks to and that is the federal treasury.

Mr. OLSON: I am interested in this because after all this is the province of Manitoba which has a responsible government in an entity that is very important to Canada. You do not take the position, then that if a rail line and X number of services are to be maintained on that line for social or economic reasons that are not necessarily compensatory to the railroad, that the local municipality, or perhaps inasmuch as the benefit may be applicable only to that municipality or in a slightly larger scope, if the benefit can only be attributed to the province, that the province should assume some responsibility?

Mr. MAURO: Yes; we have become so friendly that I tend to be facetious in some of my remarks as when I said to look only to the central treasury but we have approached this problem of rail transportation as a national matter and that the railways are of national concern. I do not foreclose for a minute the possibility that you envisage, that the commission might very well come to the conclusion in its deliberation, that there is an actual loss and that they cannot see that the national treasury should meet any deficit that would be occasioned by continuance of the line. That then brings in these considerations that I hinted at, that one would have to weigh and balance the cost of roadways, other factors that are provincial costs, and one would assume that the provincial government might exercise good stewardship in weighing the possibility of compensating the railways for maintenance of the line as opposed to building highways or ancillary transportation media. We do not deal with it in this brief because this is dealing with the federal government and the responsibilities of the federal government; but that is not an impossible position.

Mr. OLSON: Mr. Chairman, I agree with you, Mr. Mauro, where you say on page 51 that the Committee and your consultants have been denied Canadian cost data, and all of this has been very detrimental to an attempt to ascertain or anticipate the results of this legislation. As you well know, the reasons that have been advanced by the spokesman for the railway companies have been that this would be of some value to their competition or to the customers they are dealing with. Can you see where a variable cost data would be of any great value in the bargaining position of the customers of the railway?

Mr. MAURO: I indicated this morning that in my opinion, those giants with whom the railways are dealing, and who are apparently the people the railways do not want to further assist in their rate negotiations, have now experts available and knowledge of cost data that would permit them to be fairly sharp bargainers, as the railways well know. Frankly, I do not accept that the publication of proper cost data by the Canadian railways would jeopardize the bargaining position of the Canadian railways with their shippers. I say that with

limitations at my disposal, too. You asked me for my opinion and that is my opinion. I think that the royal commission said it better than I could. They dealt with that kind of an objection and said that it was meaningless, and we quote that in our brief. The knowledge of variable costs has nothing to do, I repeat, nothing to do, with ultimate rates, because the shipper will be looking at alternative modes. A big shipper knows what it is costing him to move a commodity and what he is looking for is the alternative. Is that not the logical approach to it, and the cost of the railway has nothing to do with the ultimate rate that would be bargained for.

Mr. OLSON: That leads me to my next question. On pages 48, 49 and 59 you deal with this matter of negotiated rates. On page 59 you talk about the unjust discrimination. I am a little bit concerned about the additional power to direct the industrial expansion in Canada that would be placed in the hands of the railways because of their complete freedom to negotiate and set rates. I am wondering if you envisage a rather significant transfer of power to the railways by rate making to determine where the industrial expansion is going to take place in Canada. One of the things I am concerned about is the large and the ever growing number of enterprises, other than railways, that the CPR, for example, are becoming involved in and controlling, like mining, oil and gas and almost every area, and if they have this power, no matter how big the company may be, they could in fact set up rates that would direct where this industrial establishment is going to be.

Mr. MAURO: That is of grave concern to the province of Manitoba. I think the Minister indicated this morning that in his opinion, perhaps the section on unjust discrimination, section 317, is more important even than the maximum rate formula and I do not think he over-emphasized the importance of that section. Manitoba has had a very real interest in this aspect, because we think railways by pricing policies can determine industrial development. We do not think that is the only factor. I constantly want to maintain balance in my submission to you, but railways are not just commercial enterprises. They are institutions of industrial development in this country. They have been and will continue to be and we, at one point, had suggested to the department that as one of the tests of unjust discrimination there be the mark-up over variable costs. In other words, if you have been giving one shipper into a common market, a price that was 100 per cent above out-of-pocket costs, the other chap shipping into that same market should be required to pay only costs plus a similar mark-up, because with the kind of freedom they have in this bill, they could charge one person 10 per cent above out-of-pocket costs, charge the other fellow 150 per cent and effectively close the other chap out of the market.

I think that clause 317 was an attempt to meet that possibility and we have indicated in our submission the amendment we would like to see to make sure that it is available to someone other than someone who has to prove the public interest. The Minister has said they are working on it and are aware of this very serious implication. We will await the final amendment, but this is a most important aspect.

Mr. OLSON: I have one final question. You mentioned that you are not particularly concerned about the well being, or the ability of some large corporations such as Inco and so on to negotiate rates and be sharp enough and knowledgeable enough to do this effectively. I am not particular by concerned

about Inco, or some of the others either, but I am wondering whether or not there is a possibility that even with companies as large as Inco, just to use an example,—there are a whole lot of others—that there might be some regional discrimination that could be exercised by the railways if the present bill goes through even for the future expansion of these very large companies.

Mr. MAURO: I think the dangers are there unless the unjust discrimination sections are strengthened. I think there is a very real danger that a pricing policy could be pursued which could have serious implications for the underdeveloped regions, if I may refer to them as that. This would apply especially in the northern areas of Canada which are just starting to open up. These are going to be, in effect, captive. It is not sufficient simply to give them a rate that is something beneath the maximum. There has to be a rate that has some relationship to comparable rates into a common market by a competing shipper.

Mr. OLSON: Mr. Chairman, do I have time to ask another question?

The CHAIRMAN: Yes, you can finish one more question, Mr. Olson.

Mr. OLSON: I want to ask Mr. Mauro if he has any knowledge of the application of the most recent 10 per cent increase that was announced. For the commodities and items that were included, was this another one of these horizontal increases?

Mr. MAURO: Well, I—

Mr. OLSON: In other words, the ones that were paying \$10 a ton had an additional \$1 a ton added?

Mr. MAURO: Yes.

Mr. OLSON: The ones that were paying \$2 only had an additional 20 cents added, and so on?

Mr. MAURO: Yes, the increase was across the board. It was a flat 10 per cent. So, the effect of it was to raise everybody's rate.

Mr. OLSON: Then in the charts that you have in your submission there would be still wider discrimination involved in some of those rates that are laid down there from east to east and from east to west and from east to the maritimes or from central to the maritimes. It would be wider by the amount of the additional 10 per cent.

Mr. Mauro: To the extent that they represent competitiveness.

Mr. OLSON: Well, were these charts made up on the basis of rates that were charged prior to the 10 per cent increase?

Mr. MAURO: Oh, yes, these are from the 1965 waybill analysis.

Mr. OLSON: Oh, yes. Thank you Mr. Mauro.

Mr. PICKERSGILL: Mr. Chairman, I would just like to clarify one point. Those increases that were recently announced by the railways, of which they gave notice, are under the law as it is now. They are not under the new bill. They apply to competitive rates and competitive rates only.

Mr. OLSON: I understand that very clearly, Mr. Chairman. The point I am trying to make is that even on the figures contained in this brief there is, by the addition of the 10 per cent, a further widening.



Mr. PICKERSGILL: Mr. Mauro has been making the point all along that it was the non-competitive areas that were paying higher rates. If you raise the competitive rates and do not raise the non-competitive rates on that hypothesis you would be narrowing the gap and not widening it.

Mr. OLSON: Well, Mr. Chairman, we are talking about two different things.

Mr. SCHREYER: I would refer you to page 65, paragraph 160. You make the recommendation that in determining the variable cost, cost connected with the cost of capital should be excluded. Do you make this recommendation as a matter of principle or as a matter of practical significance? Is it a significant proportion, in your estimation, of the variable cost of capital?

Mr. MAURO: First of all, what we were trying to do here was tidy up the formula section, so that the railways did not get both the cost of money plus 150 per cent of the cost of money. So, under our proposed amendments you would determine the variable cost, excluding cost of money, and you would add on the 150 per cent and then you would add on the cost of money. I think the component of cost of money in the variable cost, if I am not mistaken, was about one-sixth of the total. Now, I could be corrected on that, but as I recall I think it made up about a—

Mr. SCHREYER: My understanding was between 10 and 15 per cent.

Mr. MAURO: Yes.

Mr. SCHREYER: It was significant enough. You make it quite clear in the brief, Mr. Mauro, that you are fearful of the effects on non-competitive commodity shippers of the provisions of this bill having to do with maximum rate control. My question is do you feel that at the present time there is any effective maximum rate control that applies to non-competitive commodity shippers? I ask that because it is my understanding that at the present time the situation is that these shippers have sufficient bargaining power where they can negotiate rates with the railways that are very much below the rate control protection that is given.

Mr. MAURO: As far as the protection that the non-competitive commodity shipper has, right now he has the best protection possible and that is the freeze on any increases on those rates that took the 17 per cent increase in November of 1958. There has not been an increase on the non-competitive commodity rated shipper since 1958 because parliament put a freeze on and donated \$20 million, whereby these rates had to be rolled back from the 17 per cent to the 10 per cent. Then, subsequently the roll back was even further because of the declining volume of traffic. So, I say they have a wonderful protection right now. It is not a protection that one would want to maintain because the railways have increasing costs and these costs have to be met.

I think the other protections that the commodity shipper has are the tax discrimination sections in the present bill. The only protections that he has are these in the present bill. He has the class rate, which is the ceiling. He has the protection of the unjust discrimination clause as contained in the present bill.

An hon. MEMBER: Within the law.

Mr. MAURO: Yes, within the law. In the existing railway bill which is still the law. Of course, I think you can overplay this big shipper bit. Now, I do not

want to get involved in that kind of discussion, especially when we are putting names to them, such as "Can Inco take care of themselves?" I do not know whether they can or not. I know there are some big shippers who still do a lot of fighting about rates and who apply to the board to have rates examined and adjusted, because they think that rates are unjustly discriminatory. I think that the commodity rated shipper will continue to use those kind of provisions in the act, the unjust discrimination and undue preference section.

Mr. SCHREYER: Mr. Chairman, the other questions I had were answered in large part by Mr. Mauro when he was replying to Mr. Olson. As my last question I would ask Mr. Mauro to refer to clause 336, subclause (1). Again on the point of what constitutes "alternative, effective and competitive service", it seems to me that in all the discussion that has gone on so far in this committee there has really been no narrowing of the gap of the difference in interpretation given to those words "alternative, effective and competitive service" by another modality.

Mr. MAURO: This is clause 336?

Mr. SCHREYER: Yes. In your estimation, Mr. Mauro, if a competing mode of transportation were not able to offer a shipper a rate less than the variable cost to the railway plus 150 per cent, would that other mode of transportation be an alternative, effective and competitive service?

Mr. MAURO: I wish I could answer that. We have asked advisers whom we have retained as to the meaningfulness of clause 336(1), and I can only say to you that we are not assured by their advice. I think it is a dangerous concept to think you are going to have competing modes determine some of these levels. We have found through experience that competing modes tend to use rail rates as the umbrella. I have here, for example, a circular from the Canadian Manufacturers' Association dated October 10, 1966, advising that rates were going to go up on the rails and a circular dated October 13—three days later—saying that truck rates shown in the Canadian Transport Tariff Bureau Emergency Rate Tariff 71-C will be revised to the same level as rail rates. Three days later up go the truck rates to take advantage of the increased rail rates. We have many of the movements by water using the rail rates as an umbrella and maintaining the differential between rail rates. So, Mr. Schreyer, these are some of the difficulties we have in assessing the impact and meaningfulness of words such as alternative, effective and competitive.

Mr. SCHREYER: Well, Mr. Mauro, I noticed in your exchange with Dr. Armstrong you stated that the wording here "no...competitive service", in your interpretation was an absolute, to no degree. However, the word "no" is followed by these modifiers.

Mr. MAURO: Definitely.

Mr. SCHREYER: As one who is involved with the interpretation of statutes, what practical interpretation can we give to the word "effective"?

Mr. MAURO: These are highly discretionary phrases. This is why in our submission, Mr. Schreyer, we said at least let us define those people who were apparently designated by the parliament of Canada in 1959 as being captive—those who received the benefits of the roll back legislation in the Freight Rates Reduction Act—at least let us determine that these will be deemed captive. At least we can feel assured that the class of non-competitive commodity shipper

who received the benefit is deemed captive. Anyone not coming within that category will then come forward and apparently have to indicate that there is no alternative, effective and competitive service. I assume that over the years a jurisprudence will be built up whereby the commission has defined those words.

Mr. SCHREYER: When the president of the CNR was before us I believe I understood him correctly to say, among many other things, that the railways, when negotiating rates with non-competitive commodity shippers, particularly those involved in resource exploitation, were really negotiating bearing in mind considerations having to do with resource development, regional development and the state of export markets. I would like to ask you, Mr. Mauro, if you consider this to be a proper function of the railway, that is, negotiating rates bearing in mind regional development, resource development, and so on.

Mr. MAURO: Yes, I could not permit this opportunity to go by without complimenting the railways, particularly in the past, on the fact that they will sit down and talk to you and attempt to discuss these problems to see if they can be helpful in development situations. I do not want my brief to suggest for a minute that this is the province of Manitoba arraigned against some pirate type adversary who is attempting to break our economy. I think that the railways are trying to do a good job. I think the railways are the first to admit, though, there have to be some rules to the way the game is played. The railways are most helpful in trying to determine whether or not they can assist in resource development to their own benefit and to the benefit of the provinces.

Mr. SCHREYER: Mr. Chairman, my other questions have been answered in large part by Mr. Mauro. Thank you.

Mr. HORNER (*Acadia*): Mr. Mauro, I would like to say first of all that this is a very good brief and it may be the best brief the committee has received.

Mr. MAURO: Thank you.

Mr. HORNER (*Acadia*): You have presented it well and in great detail. You have gone back into the history of railroading and transportation generally. In reviewing the history, you point out that the federal government has always taken a keen interest in transportation and if necessary, has subsidized it, built canals and built railroads, in order to hold Canada together.

Mr. MAURO: And subsidization has not stopped.

Mr. HORNER (*Acadia*): And the subsidization has not stopped. Now, this bill we have before us is, in a sense, going to remove the subsidization. Am I right in this respect?

Mr. MAURO: Oh, I think that might be a hope that even the minister would not voice too loudly or to too large a group.

Mr. HORNER (*Acadia*): The bill works in that direction, does it not? Subsidization is going to be reduced.

Mr. MAURO: I do not know how to answer you, Mr. Horner, but I know what you are referring to.

Mr. HORNER (*Acadia*): Do not assume anything.

Mr. MAURO: No. The bill clearly has a phase-out that is different from Bill No. C-120.



Mr. HORNER (*Acadia*): All right. It has a phase-out of subsidies, we will go that far. Now, let me go just a little bit further. We have come to the conclusion, Mr. Mauro, that the past history of federal government participation has built canals, built railroads and subsidized all modes of transportation to enable Canada to unite and stay together. The federal government has also regulated those means of transportation to protect the public interest. Am I right in that?

Mr. MAURO: Correct.

Mr. HORNER (*Acadia*): In your review of history. Now, we have a phase-out of subsidies. Would you care to comment on whether or not in this bill we have a phase-out of regulations, too, in the light of public interest?

Mr. MAURO: I think there is a real attempt in the bill to de-regulate rail transportation to an unfortunate degree. I think that the railways have done a wonderful job—

Mr. HORNER (*Acadia*): Oh, I agree with you.

Mr. MAURO: —of convincing the world that they are shackled.

Mr. HORNER (*Acadia*): You agree with them that they have done a wonderful job of convincing the world that they are shackled.

Mr. MAURO: Well, I think they are.

Mr. HORNER (*Acadia*): But briefly—and I do not want to take up too much time in the Committee—you agree, Mr. Mauro, in your brief that there is a phasing out, or could well be—let us be very—generous—a phasing out of subsidies in this bill if it is passed. There could well be a de-regulating of regulations on the transportation system. I would rather have a phasing out of regulations, that sounds better to me, but I will accept your word, “de-regulating”. Now, I ask you—and I want to be very brief in my question—to look at this Committee, look at the time of the year, today is November 17, look at the bill that has been presented to us, Bill No. C-231, look at the bill as it was passed around this morning. It is chock-full of further amendments by the department.

An hon. MEMBER: Mr. Mauro has them.

Mr. HORNER (*Acadia*): Mr. Mauro has them I am told. Now, look at your brief, the depth and the thickness of it. I refer to your opening remarks, when you said that this is the most important piece of legislation this parliament is going to be dealing with this term, or something to that effect, it will have a long range effect, and I will refer you to the bottom of page 21 of your brief where you quote from the MacPherson report:

“... There is a danger, however, that an approach to National Transportation Policy which is excessively preoccupied with its financial aspects may tend to overlook the high national objectives which would not otherwise have been attained; it can also result in a lack of understanding of the complex character of Canada's transportation structure and the problems which beset it.”

In view of these remarks I am going to ask you this question. In all fairness to the Committee, can we study your brief in great detail, can we study the bill as it was first presented to us, can we study all these amendments, and I hold them up for you and the public to see, and pass this bill and have a normal

Christmas recess in this session? Do you think this would be fair to the transportation industry and the people of Canada? You said in your opening remarks that this is the most important piece of legislation which could affect Canada for many, many years. I feel I have worked as hard on this Committee as any other member, I feel that in my work in this Committee I have been enlightened to some degree with regard to transportation problems in Canada, and I ask you in all fairness can I study the original bill, can I study the amendments the government has now presented to the Committee, can I study your brief where you request more amendments, and there will be other briefs yet to come from the Alberta government and several others, can I really do a job and expect to get home to my wife and family by Christmas? I ask you that in all fairness to the detail contained in this bill and the effects it is going to have.

The CHAIRMAN: I do not think it is fair, Mr. Horner, to ask Mr. Mauro that. I think it is up to the Committee to decide, not Mr. Mauro.

Mr. HORNER (*Acadia*): No, no, I am asking a transportation expert from the province of Manitoba who knows the effect this bill is going to have on the country and who has told this Committee the effect this bill will have. I want an answer.

The CHAIRMAN: You will get an answer but I just do not think it is a fair question.

Mr. MAURO: I respect your question, Mr. Horner, and I say quite sincerely that I do not feel I am competent to voice an opinion as to the capabilities of the Committee to assess this legislation. I underline what I said as to the importance of it but I feel that each member would have to answer the question himself, as to whether or not the complexity of the legislation...

Mr. HORNER (*Acadia*): I will just ask two further questions. One will be on an altogether different line from this, but let me pursue this one a little bit further, Mr. Mauro. Let us suppose this is the Manitoba government and you are the expert and you are asking the Manitoba government, for whom you are working, to present certain legislation that is complicated and you are not too sure of it when you present it to the house, and you have to amend it as many times as this bill has already been amended and you have briefs as detailed and good as yours presented to you requesting still further changes. In all fairness, Mr. Mauro, with the wisdom you have of the transportation industry, would you ask your committee if they were working for you to rush this through, or would you rob us of our Christmas holiday and the effects of this bill...

The CHAIRMAN: Mr. Mauro has answered that question before and I do not think it is fair to ask him to answer the same question a second time. This question is out of order as far as I am concerned.

Mr. HORNER (*Acadia*): I have one other question dealing with page 34, and this will be the last question I will ask Mr. Mauro.

Mr. Mauro, on page 34 you are dealing with the horizontal increases and you point out that the last time there was a horizontal increase it was rolled back from 17 per cent to 10 per cent and then it was decreased, I think, to about 8 per cent.

Mr. MAURO: That is right.

Mr. HORNER (*Acadia*): You say at page 34 of your brief, "—it was admitted by the railways that about 75 per cent of the proposed increase would be extracted from 32 per cent of the traffic. It was further submitted that the major part of this ever-shrinking 32 per cent was traffic from or destined to the Western Region and the Maritime Region—"

In the light of that admission, if there are any future increases, would it be logical to expect that the same shift would come about? That 75 per cent of further increases, because of the competitive factor, would be derived from 32 per cent of the traffic, or a figure near that, and that it would come mostly from the western regions and the maritimes?

Mr. MAURO: I could not come to that conclusion, Mr. Horner. I think there are shifting patterns of consist and categories. The amount of competitive traffic in the maritimes and the western regions since 1958 has changed the relationship of the non-competitive commodity and class rated traffic in the western and maritime regions. Today, vis-à-vis 1958, it might very well have changed. I am not trying to evade it. I do not know what the situation would be today.

Mr. HORNER (*Acadia*): Mr. Chairman, you have been very patient with me and you have been very helpful to the witness, too.

The CHAIRMAN: That is my task. Mr. Southam?

Mr. SOUTHAM: Thank you, Mr. Chairman. I must say that several of the questions I had in mind have been pretty well explored. This morning Mr. Pickersgill referred to a fact which I think has been of some concern to our Committee, and that is the statements by witnesses from both the major railroads that in their opinion there are no captive shippers. Mr. Pickersgill also mentioned this morning that he can recall two previous witnesses stating that there were captive shippers. I can recall four. One statement was made, I think, by Mr. Doak when he was a witness for the Branch Lines Association of Manitoba and I cannot recall the other ones. However, I would like to ask you, Mr. Mauro, would you state unequivocally that in your opinion there are captive shippers in Canada as far as the railroads are concerned?

Mr. MAURO: According to our definition of captive shipper we think they form, in the non-competitive commodity area, about 54 per cent of the traffic.

Mr. SOUTHAM: This is for the record.

I have one other question and this question has been discussed at great length, too. Under Bill No. C-231 I think it is pretty well agreed the railroads will have far more leeway in setting rates than they have under the legislation presently constituted under the Board of Transport Commissioners. I was interested in your remarks this morning in reference to what has been done in the United States concerning the Interstate Commerce Commission's accumulation of cost data and its being made available to the people and to commerce in that country. Would you suggest, Mr. Mauro, that we should take a look at this very seriously and see if we cannot incorporate it into our legislation with the thought in mind that it would act as a deterrent, as a levelling process, against any discriminatory action on the part of railroads when they do get the privilege once this bill is finally passed?

Mr. MAURO: If I did not say so this morning I want to say it now, that I think it is absolutely essential. The document to which I was referring is entitled



"Rail Carload Cost Scales by Territories". This particular one is for the year 1961 and was put out by the ICC and sets out this cost data.

Mr. SOUTHAM: In my limited experience I have not dealt with matters of this magnitude but I have found that if we as individuals, and we are all individuals here, do not have the answers it is nice to go to some of the people who have already covered this ground and get the benefit of their advice and the benefit of their experience and incorporate it in our own thinking. I think this would be a wise course for us to take and I suggest that to Mr. Pickersgill.

Mr. MAURO: I think it would be a very useful tool.

Mr. SOUTHAM: I think, Mr. Chairman, it would expose to the light a lot of the concern people now have in their minds regarding the opening up of rate setting by the railroads and more or less putting them on a free enterprise basis.

Mr. MAURO: It is the same basic principle, Mr. Southam, which forms the basis for our suggestion that one of the sections be amended to make sure that the tariffs would have to be filed, because it is pretty hard to apply on the basis that you have been unjustly discriminated against when you do not know. Publication of data, I think, is important in policing the pricing policy.

Mr. SOUTHAM: That is my opinion and I am glad to hear you agree with it.

Mr. PASCOE: Mr. Chairman, reference has been made to these tables with regard to east-west traffic and east to east traffic and I just wondered—I believe you have it here somewhere—when you refer on page 17 to the bridge subsidy why you have not made very much reference to that. Do I take it that you are not objecting to the removal of the \$7 million annual bridge subsidy?

Mr. MAURO: We have made no recommendation on that, Mr. Pascoe.

Mr. PASCOE: Do you have any opinion?

Mr. MAURO: I think the position of the province is stated in the brief, that the overall subsidy program which is envisioned in Bill No. C-231 is, in fact, acceptable to us and we are not objecting to the phase out of the bridge subsidy.

Mr. PASCOE: Would you say on the movement of farm machinery to the west that the price is down somewhat because of the bridge subsidy?

Mr. MAURO: I would think that on the commodities which are presently receiving the benefits of the bridge subsidy one would assume that the freight charge is down as a result thereof. If that reduction is also passed on to the consumer, then the freight charge increment is down as a result of the bridge subsidy.

Mr. PASCOE: To follow that up, would you say that the removal of the bridge subsidy would probably increase the price of farm machinery in the west?

Mr. MAURO: To the extent that that is a factor in the pricing, Mr. Pascoe.

Mr. PASCOE: Going the other way, sodium sulphate and potash from Saskatchewan coming east has to meet the competition of the same products from the U.S. and international fields and it is very stiff competition and I am quite sure it is helped now by the bridge subsidy. Would you say the effect of the removal of the bridge subsidy would be to put our potash in a less competitive field?

Mr. MAURO: I would not think so, Mr. Pascoe, since you are referring to a specific one. I think the railways have set the rate of potash bearing in mind the competitive position of the product in the market place.

Mr. PASCOE: And you think they would continue that?

Mr. MAURO: I would think that the railways would continue to follow a pretty sound principle of self-interest in wanting to hold the traffic.

Mr. PASCOE: Is that an agreed charge?

Mr. MAURO: I cannot speak with any personal knowledge of the rates on potash.

Mr. PASCOE: You have answered that pretty well.

Mr. MAURO: Mr. Pascoe, if in fact potash is moving at an agreed charge it is not subject to the bridge subsidy, so that would not affect it at all.

Mr. PASCOE: This question deals with rail rationalization. You say on page 28 "Rail rationalization is not merely the abandonment of uneconomic branch lines but the more efficient utilization of existing rail plant." Do you envisage the utilization of both lines together? Were you thinking of joint running rights?

Mr. MAURO: Yes, I would like to see this very much, Mr. Pascoe. I think there are instances in Manitoba where you might abandon one piece of the CPR line and a part of the CNR line, where they are running parallel, and have the utilization of both lines by giving joint running rights or leasing of facilities to one of the other railways.

Mr. PASCOE: And you think that is very feasible and practicable?

Mr. MAURO: I think it is feasible; I think it could be practicable. It certainly would take a degree of co-operation which has not necessarily been evidenced between the railways since the passing of the CP-CN Act.

Mr. PASCOE: From your experience do you anticipate that the railways might agree with us?

Mr. MAURO: You may or may not know that when we put in some of our suggestions for amendments some time ago to the department we suggested that it be written in the bill that the commission had the authority, as a prerequisite to the subsidy, to order such co-operation, such leasing, such joint running rights. We felt there should be authority for the commission to do it, but one might argue that they obviously did not want to put that kind of power in the hands of the commission relative to management decisions.

Mr. PASCOE: On page 76 you said: "It was the opinion of the Government of Manitoba that the co-ordinating authority"—I suppose that is the commission?

Mr. MAURO: Yes.

Mr. PASCOE: "that we proposed should be established with regional representation". This commission is going to comprise 17 members, 13 of whom have already been set aside. Are you referring to representation on that commission or advisory group? Which one are you referring to?

Mr. MAURO: What I was discussing in paragraph 184, Mr. Pascoe, was the position we took before the MacPherson Commission. The new body is a somewhat different beast. It does not seem to permit of the same type of organization

as we had assumed. We did not expect a super-administrative tribunal. We were going to have a group which was a national transportation advisory group and which would be doing nothing but studying transportation problems on a continuing basis rather than actual regulations. This is one of the dangers which I am concerned about here because you are just putting a bunch of committees together and the choice of the three great people at the top, the president and the two vice-presidents, will obviously determine their suitability.

I think it is important in Canada that we face up to the reality that there are economic regions; there is one in the maritimes; I think that Quebec and Ontario form a certain homogeneous economic region; I think the prairies form another and then there is British Columbia.

Mr. PASCOE: Do I take it, now, that you are rather lukewarm to the idea of these 13 who are already—

Mr. MAURO: No, I think the concern which the province of Manitoba has is more a concern as to how the commission operates as opposed to the idea of the commission in principle. I hope that is the view we have given in the submission.

Mr. PASCOE: I have one more question, Mr. Chairman. On page 9, section 24, you say: "Not only was the company to build the railway, it was ' . . . hereafter and forever . . . to . . . efficiently maintain, work and run the Canadian Pacific Railway.' "

The CHAIRMAN: Mr. Pascoe, does that apply to adequate passenger service?

Mr. MAURO: I have made a presentation here—

The CHAIRMAN: I hear that the CPR is still open, and we had quite an interesting meeting in Winnipeg, if you will recall, Mr. Mauro.

Mr. MAURO: I think that the efficient working and running of the Canadian Pacific Railway included the movement of both people and commodities.

Mr. PASCOE: Thank you.

Mr. OLSON: Mr. Mauro, I did not ask you this question because I ran out of time, but for the record I think it is essential that we have the opinion, first of all, of an experienced transportation man and also the opinion of the province of Manitoba. Are you satisfied with the present methods, formulae, techniques, etcetera, used by the railways in determining variable cost? I also have a related question. Are you satisfied with what is now accepted by the Board of Transport Commissioners for the same things, the methods, formulae, techniques, and so on, in determining variable costs?

Mr. MAURO: No. First of all, I do not know what techniques are utilized by the railway.

Mr. OLSON: You have had some experience on the passenger rates.

Mr. MAURO: I had one specific grain costing study and we did not accept the methods utilized. As far as what the Board of Transport Commissioners have utilized, I have no personal familiarity with their methods in determining variable costs.

Mr. OLSON: Let me give you one more example. You are familiar with the variable costs advanced respecting the train called the "Dominion". I think you are probably also familiar with the findings and recommendations of the Board



of Transport Commissioners, at least insofar as their acceptance of these variable costs is concerned. Would this be acceptable to you and to your client?

Mr. MAURO: No, it would not, Mr. Olson, and we think there are probably going to be some very extensive hearings and it is, in effect, indicated in the act, if and when the act passes and the commission is set up that there will be a determination of the various factors and items which go into determining variable costs.

Mr. OLSON: I do not want to get into it now, Mr. Mauro, but will you and your client be prepared to make some suggestions on what you think ought to be included in the methods, techniques and so on of these variable costs?

The CHAIRMAN: If you recall, Mr. Mauro made a statement on the costing techniques of the CPR when we had the passenger hearing.

Mr. OLSON: I recall that very well, but I also know that variable costs are the paramount factor in clause 336.

The CHAIRMAN: I was just pointing out that we have had a submission on variable cost techniques.

Mr. OLSON: The point that I am trying to make is that we should have some of the people who are familiar with this, and who have been faced with this on the basis of experience, to give us the benefit of their wisdom when we attempt to set up new techniques that will be acceptable.

Mr. MAURO: I assume that the province of Manitoba will continue to participate in these investigations. Whether or not one, A. V. Mauro, is present will depend on various matters, but I would assume—and this is somewhat out of my area of determination, because it would be a policy decision for the province of Manitoba on whether or not it participates—that the province which has been somewhat prominent in the investigations to date would continue its usual role of seeking truth and justice.

Mr. BELL (*Saint John-Albert*): On page 67, Mr. Mauro, you refer to the saving as a result of the disclosure of cost figures. This was the occasion when the branch lines and the grain rates were changed, was it not?

Mr. MAURO: The saving was on the alleged cost of the movement of grain based on the assumptions of the Canadian railways as compared to the alleged cost determined by the Royal Commission.

Mr. BELL (*Saint John-Albert*): It is more than just a bookkeeping entry?

Mr. MAURO: Oh, indeed. What I wanted to indicate was that it was a basic difference in concept of what should be the assumptions in the various items that should be included and calculated.

Mr. BELL (*Saint John-Albert*): Would you go so far as to suggest that we really have a responsibility to look after the taxpayers' money and to see that we get the most out of these figures?

Mr. MAURO: Mr. Bell, I think you certainly have as great a responsibility as the Committee on Consumer Prices, which has demanded cost data and various factors, and it was not on the basis that the federal government was going to have to pay these consumer prices; it was to protect the consumer. I think that this Committee of Parliament has the same obligation to protect the treasury and

the public in the proper costing of the factors set out in the act under clauses 334 and 336, and under the light density and passenger services.

Mr. BELL (*Saint John-Albert*): Do you think, from your experience, that it would be possible to take one commodity, or one particular example, and follow it through and assess the results from it? In this way, if there was any damage of a private, competitive nature in the railways' argument, at least we would know that?

Mr. MAURO: I do not think that one commodity would be a representative review, whether you followed it through or not. I do not think, looking at this type of costing, that you would necessarily at this stage take one commodity. You might take a group of commodities from point to point, and of different classifications, different weighting, and cost them out to determine some of the coefficients at various weight levels of various products. In this business about harming the railways, I do not accept the premise, and since I do not accept the premise I find it hard to deal with whether or not you should take one commodity and price it out so that you could have a look at it. I think that you could take representative movements.

Mr. BELL (*Saint John-Albert*): Without going all the way?

Mr. MAURO: Yes.

Mr. BELL (*Saint John-Albert*): The railways—at least the CPR—make quite a bit about the private negotiation and the free enterprise nature of negotiations between the shippers and the railways and the rates and the 30,000 pounds. Why is it—and I realize you have been on this before—that there seems to be a reluctance on the part of the shippers to ask for an investigation of the rates?

Mr. MAURO: I think there might be a multiplicity of reasons. There certainly has to be the position of some of them that they have to live with the railways, and they go along. There is the other aspect of it that you frequently find that shippers are not so concerned about what rate they are paying, as about the rate that the competitor is paying. As long as they are both paying relatively the same rate, they say that is fine. You start to hear the static when the relationship between rates becomes a little distorted and then someone becomes a little excited, and I assume that the railways hear more from him.

Mr. Bell, I think the other thing in Canada is the role of the provinces. I do not know, but perhaps if we could go back in history, that it might not have been better to develop a system such as you see developed in the United States where shippers or shippers' organizations tend to be the adversaries in cases before the ICC. Here in Canada, because of the essential nature of rail transportation, and transportation generally, in the establishment of our nation—certainly in western Canada and the same in the Maritimes—the provinces have taken this on. I think that the small shippers generally feel that the provinces are looking after this and are undertaking the large aspect of the case.

The final thing is I do not want to indicate that the shipper does not complain. The railways are getting complaints every day from shippers and they are handling and settling them. These are the four reasons I would give.

Mr. BELL (*Saint John-Albert*): To follow along the philosophy, which was stated a moment ago, about the murder in Iceland, you would worry, would you not, that a large shipper in a near-monopoly situation, dealing nationally or

internationally, might leave this extra cost in Manitoba and it would be lost in the economy there? He might not be concerned in getting the best rates, or it might not be a big factor to him at the time.

Mr. MAURO: No; because depending on the commodity, it might be able to be passed on.

This matter of the interest of a specific shipper in the rate differs with the shipper, depending on the commodity, because he deals with the laid-down price and he says, "the market will absorb this increased price and I can move my commodity, and there will be some internal subsidization within my marketing process itself, and it does not concern me." The freight rate factor may be a very small factor in the total price of the commodity, particularly in high-valued commodities.

On the other hand, when you are trying to bring in industry—this is where we see it and this is where you see it in the Maritimes—people say, "We can build a plant in Ontario, or we can build one in Manitoba, and we have all these people in central Canada, we are not going to come in there unless we get a rate that gives us an opportunity of competing in that market." We do not want any rate—as I mentioned this morning—that fails to reflect the geographic location of Manitoba. A shipper must be expected to pay the additional cost of additional mileage, but it is when the railway pricing policy starts to reflect something more than that—when, in fact, railway pricing policy starts to determine development and who will compete in a given market—that the question of unjust discrimination and limitations on the power of the railways goes beyond commercial enterprise. And that is why we are here today.

Mr. BELL (*Saint John-Albert*): Finally, are you still unhappy with the onus on the shippers, or has that been straightened out by what Mr. Pickersgill said?

Mr. MAURO: No, I am not happy at all, but I would like to hear the Minister, and if I can be sure of having the Minister as a witness—I cannot read clause 336 any differently from what I explained this afternoon. I think the onus is there. I cannot, as much as I would like to, accept the statements of Dr. Armstrong that anybody who has a rate 150 per cent above variable would be a candidate. I think there are very heavy onuses placed in the clause, and that is why I continue to press that it be amended to include at least those people who are affected by the Freight Rates Reduction Act.

Mr. PICKERSGILL: I wonder whether the Committee would permit me to ask a question very directly related to what Mr. Bell asked? This is the kind of question that the Speaker would disallow in the House of Commons, because it is really a double-barrelled question: Does Mr. Mauro think that any maximum rate formula, which could possibly be devised by anyone, would meet the kind of situation he was just discussing, about getting an industry in an area? Is that not the kind of situation that has to be met by some kind of appellant provision, where the particular circumstances can be taken into account?

Mr. MAURO: Yes; I think the rate formula was a separate subject. Vis-à-vis the industry, it appears to me that Mr. Pickersgill is absolutely correct but that it comes under the operation of the unjust discrimination section.

Mr. BELL (*Saint John-Albert*): I want to say that this is a very good brief, and to compliment the province of Manitoba on it.



Mr. CANTELON: I notice that on page 17 you mention the matter of federal assistance for highway construction. I suppose your object here is to use this to assist districts where the branch lines are done away with?

Mr. MAURO: I am sorry, Mr. Cantelon. What was your question?

Mr. CANTELON: You talk about federal assistance for highway construction, and you mention two cases where there has been federal participation in highway construction. I wondered whether you introduced that because you had in mind that there should be federal assistance for highway construction where a branch railway line has been abandoned?

Mr. MAURO: No; that was not the intention.

Mr. CANTELON: It has been brought to our attention.

Mr. MAURO: I might say that when we were finalizing the brief the premier indicated to me that he wanted it mentioned that the province, as he had indicated at the Dominion-Provincial Conference, was very concerned about the termination of the roads-to-resources program. He thought this was a critical area of national policy, and that it was unfortunate, particularly in the case of Manitoba, that the program had been terminated. However we simply list it in our brief as another indication of national policy, rather than as the basis of it.

Mr. CANTELON: I thought perhaps you might be interested to know that there has been one case in which the federal government has assisted when a branch line was abandoned, and that was in the Moncton-Buctouche area.

Mr. MAURO: We will be making application tomorrow!

The CHAIRMAN: If there are no further questions, I would like to thank . . .

Mr. PICKERSGILL: Mr. Chairman, I wonder if you would permit me to make a correction before Mr. Mauro goes, and before you thank him? This morning, before I got the signal from my expert advisor, I spoke in relation to the provision that rates which were not compensatory could not be offered to shippers. I said we had applied this in the bill only to the railways because we did not think that the highway people and other people might put the railways out of business, but because we thought that the railways might put them out of business. I regret to say that this is evidence that although I frequently claim authorship of this bill I am not familiar with every detail of it. There are two contingent provisions in the bill, one with respect to pipe lines, that when commodity pipe lines are built the same provision will apply to them; also, if and when the clause regarding highway traffic does come into operation, it would apply there, too. So I was just wrong about the bill, but I still think we are quite a few years away from the day when the truckers will be putting the railways out of business by cutting rates.

The CHAIRMAN: Thank you, Mr. Pickersgill.

I want to assure Mr. Spivak, the Minister of Industry and Commerce of the province of Manitoba, Mr. Mauro, counsel, Mr. Trechtenberg, Mr. Stechishin and Mr. Mitchell, of our deep appreciation of the comprehensive brief and the fine presentation to this Committee today. It has been most helpful to the Committee, and I am sure that they appreciate the attention that has been paid to it, as is always paid to the briefs presented by the province of Manitoba to this Committee.

I also want to thank Mr. Mauro for being so cooperative in coming forward as soon as he could to present the brief to this Committee. I am sure we all appreciate the presentation, and I want to thank you very sincerely for it.

Before we adjourn, we will let the witnesses withdraw, and then we will discuss a few matters.

Three documents have been tabled with the Committee today, and copies have been distributed. One is a summary of recommendations respecting Bill No. C-231 made in briefs received on or before November 8th, 1966, and prepared by the transportation policy and research branch of the Department of Transport. We all thank Mr. Cope and Mr. Baldwin for attending to this. Another document is Bill No. C-231 with inserts of the amendments to date. The third document is a compendium of all the amendments with the statutory notes relating to them.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, those are the amendments that will be moved?

The CHAIRMAN: Yes; the amendments that will be moved by some members of the Committee as we go clause by clause, I wish to bring to the attention of the Committee that on Tuesday, November 22nd, at 9.30 we will hear the brief of Mr. Lloyd, the leader of the opposition in Saskatchewan, and then Mr. Frawley on behalf of the government of Alberta.

Mr. Lloyd's presentation is very short. When we undertook to hear him we advised him of our emergency and requested that he be very brief, because it is rather a lengthy brief by the province of Alberta.

On November 24th, at 9.30 there will be a joint brief of the provinces of Manitoba and Alberta and the Atlantic provinces, which is really by their cost consultants—a seven or eight page brief which we will complete in a very short time—just try to corroborate their brief to date, although I am sure that the Committee is well versed in these matters.

As has been stated in the last two weeks, we are prepared to start consideration clause by clause, but we will be holding back those clauses which the Committee feels should remain until the end in the event that we receive further amendments, either from the briefs of Manitoba or Alberta. It is the intention of the Chair to start tomorrow morning at 9.30 with those clauses which are not contentious, and then from 2.00 to 4.00. There is no further meeting tonight, unless the Committee is interested in sitting—

Mr. ANDRAS: Mr. Chairman, may I interrupt on that point? Since we have only two or three more briefs to hear, I would move now that the Committee immediately begin in camera consideration of Bill No. C-231 clause by clause, and continue with this at future meetings until all clauses have been dealt with; with the provision that time be taken to hear such additional briefs as we are committed to, or become committed to.

In so moving, I suggest it be understood that clauses 317 and 336, particularly, which have been most discussed, be left for consideration until the other sections have been disposed of.

An Hon. MEMBER: Does this mean that we will sit tonight to deal with that?

Mr. ANDRAS: My suggestion is that to save time we should start now.

The CHAIRMAN: It is 5.25, and there is a motion presented by Mr. Andras and seconded by Mr. Lessard. If it is carried I would suggest that we start at eight o'clock and not now.

Mr. BELL (*St. John-Albert*): Mr. Chairman, I think we should move along at the right time but surely it is presumptuous of us to start passing clauses when some of the clauses have not been considered. Now, we do not know what—

The CHAIRMAN: Mr. Bell, I have—

Mr. PICKERSGILL: Mr. Chairman, could I just say a word about that? I think that if there are any really contentious clauses they should be held up, and there also should be a provision that any clause on which there are further representations could be reconsidered.

The CHAIRMAN: Well, that would be agreeable. I wish to let Mr. Bell know that we did give an undertaking to the other people and they have been informed many weeks ago, that clause by clause consideration would start unless the briefs were in and they understand, and Mr. Frawley and Mr. Lloyd and the others they were informed that we would undertake to leave the contentious clauses to the end, and that we would reopen any clause that they wished to have reopened later. This was understood and actually agreed to by Mr. Mauro and by Mr. Frawley, at that time, if they wanted to come before us. My intention was to start tomorrow morning, and all members of the Committee have been informed of this daily for the last two weeks.

Mr. BELL (*St. John-Albert*): In other words, Mr. Frawley thoroughly understands? For example,—

The CHAIRMAN: I have made it clear to Mr. Frawley.

Mr. BELL (*St. John-Albert*): He thoroughly understands that we are starting on Wednesday.

The CHAIRMAN: Yes. I have made it clear to Mr. Frawley personally on a number of occasions, and he understood that quite definitely, and he stated that that was satisfactory to him.

Mr. OLSON: Mr. Chairman, I am cognizant of the time factor involved, but I am just wondering how we are going to reconcile the beginning of the clause by clause study and actually pass the clauses as they are, or as they are amended—

The CHAIRMAN: As they are amended, Mr. Olson.

Mr. OLSON: —without knowing from Mr. Frawley—

If you say that it is only clauses 314 and 336 that he is interested in—

The CHAIRMAN: No, no, I did not say that.

Mr. OLSON: —without knowing which clauses he is going to deal with? As a member from Alberta I would like to have at least until tomorrow morning to check with him to find out—I know there are not very many—clauses what he views as contentious, because if we pass some of these clauses now, that closes them.

The CHAIRMAN: No, no. Mr. Olson, I did not say that they were the only two clauses he was interested in. I stated to Mr. Frawley on a number of occasions, and I believe Mr. Pickersgill has also in my presence, and I have stated to him in the presence of Mr. Pickersgill that we would do this; but the undertaking was given to him that the contentious clauses would be left to the end, and if there were any clauses on which he wished to make representations, the Committee would be sure to let him—



Mr. OLSON: I understand that, but do you know now the clauses that we should defer?

The CHAIRMAN: Mr. Pickersgill has them.

Mr. PICKERSGILL: I have a suggestion to make to the Committee that I think would meet Mr. Olson's point, and that is that the Committee could decide now that any clause on which any subsequent witness heard by the Committee makes representation could be reopened after those representations; so that this matter would not be closed.

Mr. OLSON: But there is a problem here that does not quite meet, sir. It would have to be reopened by a majority vote.

The CHAIRMAN: No, no. It could be agreed upon now, Mr. Olson.

Mr. PICKERSGILL: We would agree now that if any member of the Committee asked to have reopened any clause on which there were representations received it would automatically be reopened.

The CHAIRMAN: Well, perhaps you can add that to your motion, Mr. Andras.

Mr. PICKERSGILL: I would like if I might just to say this that I, as minister, have tried to be as helpful to the Committee as I could at every meeting and I am going to be faced, at the end of November or the beginning of December, with a very awkward situation if we cannot complete the deliberations of the Committee by a certain date and I would personally appreciate it very much if we could sit this evening and as much as possible in the next ten days.

Mr. OLSON: Mr. Chairman, with the qualification that we are going to add to the motion I have no objection to it.

Mr. BELL (*St. John-Albert*): I do not know how pertinent this is, but I will be coming back tonight, and I would like to try to get some of this material sorted out in my mind. If we start clause by clause discussion tonight, it is going to be a mess. I do not know whether I will do much work on it, but you have given us the documents only today. Could we not sit tomorrow afternoon rather than tonight? Would there be enough members around? I will sit tomorrow morning. It suits me.

Mr. DEACHMAN: Mr. Chairman, I wonder whether it would be possible for us to meet tonight and move along with the non-contentious clauses. If we meet with problems and have a little difficulty—

Mr. BELL (*Saint John-Albert*): But how do we know which ones?

The CHAIRMAN: Surely, Mr. Bell, after all this time we know what is contentious and what is not contentious because you can tell from the questions. Order, please. Order, please.

Mr. CANTELON: Perhaps we can settle this by making sure that in the motion there is a statement similar to the one which Mr. Pickersgill has suggested.

The CHAIRMAN: That is what I suggested that Mr. Andras add to his motion.

Mr. ANDRAS: I so agree.

The CHAIRMAN: Now, do we have a proper motion? It is moved by Mr. Andras, seconded by Mr. Lessard, that clause by clause consideration of Bill No.

C-231 commence this evening, with the proviso that any clause on which subsequent witnesses made representations to amend will be reconsidered.

Mr. PICKERSGILL: At the request of any one member. I think you ought to add that.

The CHAIRMAN: At the request of any one member.

Is that satisfactory to you, Mr. Andras? Mr. Lessard? All those in favour of the motion? Those opposed?

Motion agreed to.

The CHAIRMAN: We will adjourn until eight o'clock this evening.

## APPENDIX A-32

Submission by the  
 PROVINCE of MANITOBA  
 respecting  
 Bill C-231  
 THE NATIONAL TRANSPORTATION ACT  
 to the  
 HOUSE OF COMMONS STANDING COMMITTEE  
 on  
 TRANSPORT and COMMUNICAIONS  
 November, 1966

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## PREFACE

Mr. Chairman and Members of the Committee:

The Government of the Province of Manitoba appreciates the opportunity to appear before you to present our views on the important legislation proposed for enactment by Parliament in Bill C-231. Our submission deals with the various aspect of the legislation and makes specific suggestions and recommendations.

The Committee is well aware of the significance of the proposed legislation. The Bill enunciates the broad outline of a national transportation policy for



Canada and within the framework of the national transportation policy it sets forth the mechanism and procedures for implementation of the policy.

The proposed legislation is of vital importance to our national and regional development. It is of equal importance to the transportation industry and to the users of transportation in Canada. In our enterprise type of economy the role of users of transportation is crucial. It is they, as customers of the different modes of transport, who will play a major role in determining the rate of expansion in the various sectors of the economy across the nation. The well being of all parties who will be affected by the proposed legislation must therefore be safeguarded.

To assist the Committee in its consideration of the Bill we have grouped related aspects of its subject matter into separate chapters. Our references are to Clauses and page numbers of the Bill and to those Sections of the Railway Act and other transportation legislation which are affected. Our proposals for amendment or deletion of particular Clauses and Sections are set forth in each Chapter and are re-produced for ease of reference in a compendium to this Submission.

We trust that our Submission will be of assistance to you in the determination of a national transportation policy for Canada.

## CHAPTER I

### NATIONAL TRANSPORTATION POLICY

1. Bill C-231 is entitled "An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions". This is the first time that any legislation of the Federal Parliament defines national transportation policy.

2. Clause I of the proposed legislation states:

"It is hereby declared that an economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that, except in areas where any mode of transport exercises a monopoly.

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to Transportation".

3. Since Bill C-231 is to be "enacted in accordance with and for the attainment of . . . these objectives" of national transportation policy as above enunciated, it is imperative, before proceeding to a consideration of the Bill, that we review national transportation policy in the context of its historical evolution and the findings and recommendations of the most recent Royal Commission on Transportation—the MacPherson Commission. The purpose of such a review is to assist the Committee in its consideration of the succeeding clauses of Bill C-231 by placing these provisions in their proper context.

4. National transportation policy in Canada has evolved as an integral element of national economic policy. While it would be presumptive to offer a single statement in definition of national economic policy, it may be summarized as a policy or plan, or as a series of policies or plans, the object of which is to secure the development of Canada for all Canadians. National economic policy emphasizes the utilization of our natural and human resources to improve the well-being of all Canadians in all regions of the country. National economic policy in Canada since Confederation has consistently been designed to foster and promote the development of the various regions for the benefit of the entire nation. It has never been the intention that one area of the country should be preferred at the expense or exclusion of another area. This national policy can be best demonstrated by reference to the construction and operation of Canada's railways and the historic role which they have played in the furtherance of national economic policy.

#### *Role of Transportation in National Economic Policy*

5. Canada, by the very nature of its vast distances, its small and scattered population, the location of its natural resources and its dependence upon export markets, has been a difficult country for which to furnish transportation. The geographic nature of the country is such that transportation has always played, and will continue to play, a major role in its economic growth.

6. In view of its importance, transportation has been closely interwoven with the economic, political and social life of the country throughout its history. From the earliest days of settlement, governments have taken an active part in providing transportation by water, highway and rail, and more recently by air and pipeline. In the process, a national transportation system has been built up by a combination of public and private initiative with various forms of government assistance.

7. The principal requirements for an effective national transportation system may be stated as follows:

- (a) It should permit access to markets by the most direct routes and by the most efficient means which the potential traffic will sustain.
- (b) It should provide that combination of transportation facilities which yield maximum economics to producers and consumers and reasonable returns on invested capital.

#### *Provision of Transportation Facilities in Canada.*

8. Historically, the provision of transportation facilities was motivated by the desire to link together the former British North American colonies into a cohesive political and economic unit. The system reflects a deliberate effort to avoid the powerful forces tending to bring about an absorption of the several

provinces into the economy of the United States. As a result, a fundamental and persistent problem has existed in the history of Canadian transportation. This problem is focused on the interplay of two divergent concepts: profit motivation as evidenced in commercial principle on the one hand; and the public policy objective of national unity on the other.

9. In the first stages of the country's history, waterways provided the most important form of transportation. At an early date, however, it was recognized that economic growth depended to a large extent upon the construction of railways. The large productive areas of the country could be served only in a limited way by its system of waterways.

10. The fear of economic and political annexation by the United States led the scattered colonies of British North America in the latter half of the nineteenth century to consider the formation of a larger and stronger economic and political unit. In these considerations, cheap, reliable, year-round transportation was an essential element.

"The decision to build the railway entirely through Canadian territory was of fundamental significance. . . This consideration turned the colonies to. . . ensure political independence through a union of their own and to seek strength and prosperity by a national economic integration based on an expanding inter-regional trade. The pull to the south was strong. The establishment of an east-west integration would require bold and far-sighted policies of national development."<sup>1</sup>

11. Prior to Confederation, the Grand Trunk Railway had become an important line, serving the people of both Canada and the United States. After Confederation, the Intercolonial Railway was constructed with public funds to link the Maritime Provinces with the former Canadas in order to meet the political and economic requirements of the public policy of the new Dominion. A railway project of much greater magnitude and significance, an all-Canadian transcontinental line, was projected by the Government and completed by a private company, the Canadian Pacific Railway, with extensive public assistance.

12. In the early days of Confederation, national policy was concentrated mainly on fostering the political unity and economic integration of the newly united provinces. Both these objectives required the flow of trade and traffic in east-west channels and therefore necessitated the creation of transportation links between the different parts of the country. The central importance of transportation in Confederation is shown by two facts:

- (1) provision of rail transportation facilities was a condition of entry for both the Maritime Provinces and British Columbia;
- (2) the emphasis on the construction of an all-Canadian line built with substantial Government assistance.

13. Due to the distances which separate Canada's producing territories and consumer markets, development of the country's resources depended upon railway construction and low transportation charges to facilitate the flow of products to market. The people of Canada have given the aid necessary to procure adequate transportation facilities.



*Historical Development of National Economic Policy in Transportation*

14. The ultimate goal of the public policies of the various federal governments since Confederation was to maximize and equalize opportunities and benefits for all Canadians in all regions of the country.

*Early Canals and Public Policy*

15. Water transportation was of primary importance in the early stages of Canada's development. For the Maritime Provinces, the sea provided the route for trade and settlement. The Great Lakes and the St. Lawrence River waterways gave access to the principal areas of colonization in Canada. In the Prairie Provinces and British Columbia, river valleys and regions adjacent to lakes were the chief areas of settlement. In order to facilitate the maximum use of the waterways in the Provinces of Upper and Lower Canada and to overcome such natural hazards as rapids and shallows, it was imperative that canals be built.

"The Canadian and Imperial Governments built nearly all the canals of the St. Lawrence system as public works. Those, such as the first Welland Canal, which were built by private companies, received help from government and were without exception taken over as public works."<sup>2</sup>

16. During the period of major canal construction in Central Canada, the national objective was to divert traffic from the United States waterways to the St. Lawrence system. Canals were an instrument of public policy directed to making transportation facilities available to all areas on an equal basis. Construction and maintenance were assumed in full by Government. There was no attempt to recoup costs and the system was operated as toll free waterways. To the end of March, 1957, the total capital expenditure on the canals system by the Federal Government was \$242,104,349.<sup>3</sup> This figure represents the original cost of construction and does not include cost of maintenance and improvements. In addition, the Federal Government's portion of the cost of construction of the St. Lawrence Seaway was \$322,000,000<sup>4</sup>

*Early Railways and National Economic Policy*

17. Following Confederation, while waterways continued to play a strong supporting role in transportation, the construction of railways emerged as the major element in national policy.

18. Government policy in the construction of railways prior to 1867 has been outlined as follows:

"... railways were either built and operated as public works or a private company was made an agent, or ... a partner. . . of the state, in providing railway transport. The Guarantee Act of 1849 is a clear example of the relation which was developing between governments and private railway companies in British North America. The Act begins by stating the need of government assistance for railway construction in a sparsely settled country where capital was scarce. It provided that the government might guarantee the bonds of any railway. . . Provision was made for a sinking fund and a mortgage on the lines of which the bonds were guaranteed. . . Municipalities were also allowed to assist railway construction. . .

The construction of the Grand Trunk Railway was the outstanding example of how Canadian governments aided the construction and operation of railways by private companies to a degree which exceeded the help given railways in the United Kingdom and even in the United States. The company was given a bonus of. . . about one-third the cost of construction. . .

When the Grand Trunk encountered early financial difficulties, guarantees of a new bond issue at 6 per cent were made in 1855. In 1856 a further guarantee and an outright grant were voted, and further aid given in 1857.

The construction of the Grand Trunk was an act of provincial policy . . ."<sup>5</sup>

### *Confederation and the Intercolonial Railway*

19. Political union of British North America was designed to improve its credit position while railway construction would provide the economic basis for union.

20. As a condition of Confederation, the investment in the line reached a total of \$108,000,000 by 1916 for 1,450 miles of track. This outlay was due primarily to the circuitous route which was chosen to avoid crossing into the United States. The Dominion Government undertook to build the Intercolonial Railway. Construction of the Intercolonial made possible the introduction of a common tariff policy. As a source of revenue, the tariff helped to finance the railway and as a protective measure it helped to create traffic and direct it to the new line. Freight rates were set on a relatively low basis so that shippers were not required to pay for the additional miles occasioned for reasons of public policy.

21. This railway, built and operated by the Government, was not designed as a commercial venture. The financial implications of public policy were:

- (1) The Government incurred the construction cost;
- (2) because of the circuitous route users could not be required to meet the full cost of operation and maintenance and the Government was committed to meet recurrent deficits.

### *The Pacific Railway and National Economic Policy*

22. A railway to join the Atlantic to the central provinces and a Pacific railway to incorporate Rupertsland and British Columbia were necessary to achieve the union of British North America. The Pacific railway was an even more complex and enormous undertaking than the Intercolonial. Acquisition of the Northwest and union with British Columbia had to be negotiated, then the longest railway of its time had to be built. Manitoba entered Confederation on the understanding that a railway would be built to connect it with the outside world. Its public lands, like those of the North-West Territory, were reserved for the purposes of the Dominion, that is, for homestead and railway land grants. When British Columbia entered the Dominion in 1871, the terms of union required the national government to build a railway to the Pacific. Railway construction was thus an integral part of national union and expansion.

23. This plan for national development and the role of the transcontinental railway in its implementation have been described in the Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book I, p. 28 as follows:

"The first of these policies was to provide east-west channels of trade independent of the United States by building a transcontinental railway wholly over Canadian territory. Such a railway would open the undeveloped lands of the West for settlement... But the construction of such a line over empty distances and forbidding mountains could not be undertaken without extensive public assistance. This fact pointed to the second policy which was indeed an essential complement of the first. The public lands of the Northwest were to be used by the Dominion to promote railway expansion and rapid settlement. Land grants would provide the greater part of the public assistance required by the railways. The railways, in turn, would make the lands valuable and a free homestead system would attract a rush of settlers. The decisions to build an all-Canadian railway and to establish a vigorous Dominion land policy were basic national decisions which, together with the adoption of the protective tariff which was soon to follow, fixed the pattern of subsequent economic development in the Dominion."

24. The MacDonald Government's policy respecting completion of the Pacific railway was outlined during the debate on the Act of 1881<sup>6</sup> which ratified the agreement the Government had made with the Pacific syndicate, which ultimately became the railway company. Sir Charles Tupper, Minister of Railways and Canals, declared that "the great national work, the Canadian Pacific Railway..." should be constructed... "through the agency of a private company aided by a grant of land and money." To that statement Prime Minister MacDonald added that the company "would get a fair and full return for all their risk, for all their expenditure, and for all their responsibility."<sup>7</sup> The Canadian Pacific Railway Company was thus, in present day language, to be the chosen instrument of national policy in fulfilling the purposes and obligations of the Dominion. Not only was the company to build the railway, it was "...hereafter and forever... to...efficiently maintain, work and run the Canadian Pacific Railway."<sup>8</sup>

25. The line, privately owned and operated, was to be a national line built as part of a national policy to fulfil national purposes. The undertaking was large and the immediate potential traffic small. Prospects of profit on the new railway seemed unattractive. The Government offered generous inducements to the investors to undertake the venture. The benefits received by the company under the terms of the contract with the national government were as follows:

26. A subsidy of \$25 million; 25 million acres of land in Western Canada; 713 miles of railway constructed by the Government from Selkirk to Lake Superior, Kamloops to Port Moody and Selkirk to Emerson, later valued at \$37,785,320; the lands required for the roadbed, stations, station grounds, workshops, freight yards, docks and other structures. In addition, the company was to receive admittance, free of duty, of steel rails and other materials used in the construction of the railway, telegraph lines, and telegraphic apparatus; tax exemption forever of capital stocks, stations, station grounds, workshops, buildings, yards and other property, rolling stock and appurtenances; tax exemption for twenty years or to the time of sale or occupancy of lands of the company in



the North West Territories. Finally, the company was granted a territorial monopoly of railway construction and operation in Western Canada for twenty years.

### *Early Freight Rate Policy*

27. The period from 1867 to 1896 was characterized by large public expenditures on transportation facilities in the form of subsidies, land grants, and other assistance by the national government. Not until 1879 was an attempt made by the Government to limit the rates charged by the railways, although under the British North America Act (Section 92, 10 (a)), the Dominion Government was given complete jurisdiction over inter-provincial railways. The main control on rates in Eastern Canada was competition from the canals and existing American railways. However, competition as a form of control of rates proved inadequate, for in many instances, areas in Eastern Canada were served by only one railway, while in other instances the railways, through co-operative arrangements, determined the level of freight rates, the charges for individual shipments, and the quality of service.

28. Public complaints about the level of freight rates in the 1870's led to legislation in 1879 which introduced moderate and indirect rate control by limiting the level of dividends. Under the Consolidated Railway Act (42 Victoria, Ch. 9. Sec. 17), power was given to the Governor-General-in-Council to limit rates to a level which would permit the railway companies dividends of not more than 15% on capital expended on construction. This clause was dropped in the 1888 revision of the Act, but it was retained in the charter of the Canadian Pacific with the rate fixed at 10%. These measures, however, failed to remove regional discrimination since the rates were higher in Western than in Central Canada due to the absence of rail and water competition in the West. It was not until the Crow's Nest Pass Agreement of 1897 that an attempt was made by Government to alleviate the burden occasioned by regional discrimination of rates in Western Canada.

29. The importance of rate regulation to the Province of Manitoba and the Northwest region was described by Professor Morton as follows:

"The reason for this was partly the geographic position of Manitoba. Its remoteness, however, was as accessible to American as to Canadian railways, and it might theoretically at least have expected to enjoy the benefits of competition. But another part of Canadian national policy, and particularly after 1879, was the maintenance of a protective tariff. The tariff, of course, operated to diminish the flow of goods northward from the United States and so to diminish the competitive capacity of American railways to haul exports from Manitoba. The general effect was to make Manitoba and the Northwest, as the Prairie Provinces have remained, an area in which Canadian railways are sheltered from the competition of American railways. Equity thus demanded some regulation of railway rates to offset this consequence of national policy. Even more urgent was the national need to encourage a flow of wheat exports to market in order to pay for the national development of Canada".<sup>9</sup>

*First Attempts at Rate Regulation and the Crow's Nest Pass Agreement*

30. Not until 1897 did it become national policy to seek to modify the monopoly position of the Canadian Pacific Railway in the West and to reduce the disparity between the rates charged in Central and Western Canada. A significant contribution to national prosperity was made by the settlement and agricultural development of the northwest area of the country, which fostered economic expansion in the rest of Canada.

"... The settlement of the Prairies took place within the framework of the national policies of all-Canadian transportation and protective tariffs. The resolute application of these policies directed the growing demands for capital equipment, for manufactured goods, for distributive and commercial services into Canadian channels, thus bringing expansion in other parts of the Dominion."<sup>10</sup>

31. Owing to the long hauls from Western producing centres and the lack of competitive surface transportation facilities to foreign consuming markets, freight charges on the shipment of grain were high. The national policy for Western settlement and development required low freight rates in order to improve the competitive export position of Western grain producers. At the same time both the Canadian Pacific Railway and the Dominion Government were concerned about the growing domination by American railways and commercial interests in the Kootenay Valley district of British Columbia.

32. In return for a cash subsidy, and a land grant for the construction of the Crow's Nest Pass line, into southern British Columbia, the Canadian Pacific Railway in 1897 entered into an agreement whereby the rates on specified commodities Westbound and on grain and flour Eastbound were reduced in perpetuity and the railway submitted to the future regulation of other rates. The novelty of this aspect of national policy of minimizing inter-regional differentials in freight rates, as well as its complexity, is given in the classic statement by Frank Oliver, Member of Parliament for Edmonton, during the debate on the Crow's Nest Pass contract in 1897.

"... it is because the railway rates have been distinctly against the west in particular and in general from the first that Manitoba and the Territories have shown so much less rapid progress than was expected when the Canadian Pacific Railway was first aided. It is for the same reason that the trade of eastern Canada with the west has not increased as was hoped at the same time... A general and adequate cheapening of the rates from eastern and throughout western Canada would develop the west, and enable the east to reap the sole outside profit of that development. A failure to bring down the rates to the point to final effective competition with the lines of the United States... is to continue to retard the west, and to divide its trade between eastern Canada and the United States for the increasing advantage of the latter... it has simply been taken for granted by all parties that the Crow's Nest Pass line must be built, not because of the line itself, but because of the new railroad policy of which it was to be at once the announcement and the commencement."<sup>11</sup>

33. The reduced rates on grain facilitated expansion of the agricultural economy of the Prairie region. The reduced rates on westbound shipments of commodities ensured the manufacturing industries of Eastern Canada of the

dominant share in the growing markets of the expanding Western region. The Crow's Nest Pass Agreement was an application regionally of national economic policy from which Western Canada, the Canadian Pacific Railway and the country as a whole were to obtain substantial benefits.

*Railway Expansion in the 1900's and the Formation of the Canadian National Railways System*

34. By the turn of the 20th century settlement and wheat production in the West were expanding rapidly and large sums of foreign capital were available. The Dominion Government was eager to expand railway facilities throughout the country. During the railway debates of 1903, Sir Wilfrid Laurier stated the Government's policy and stressed the need for immediate action on construction of the National Transcontinental Railway:

"...to provide immediate means whereby the products of those new settlers may find an exit to the ocean at the least possible cost, and whereby, likewise, a market may be found in this new region for those who toil in the forests, in the fields, in the mines, and in the shops of the older provinces. Such is our duty; it is immediate and imperative."<sup>12</sup>

35. This expansion of the West which the Dominion Government was anxious to encourage would bring substantial economic benefits to the other provinces. In the words of the Prime Minister:

"Our fertile prairies are becoming settled...these new settlers will grow cereals, and probably nothing else... They will have need of clothing, furniture, and every other kind of manufacture... Shall we allow them to be supplied by our American neighbours, or shall we provide a railway which will enable our manufacturers in Ontario and Quebec to supply them with what they shall require?"<sup>13</sup>

36. In addition, it appeared to be in the interests of Ontario and Quebec for the Grand Trunk's projected rail line from Quebec City westward to the Pacific to be located to the north of the Canadian Pacific Railway so as to open up for settlement the "Clay Belt" between the Laurentians and Hudson Bay. To meet these regional demands, the Government undertook to build the eastern section of the line from Winnipeg to the Maritimes, on condition that the Grand Trunk would build the western section from Winnipeg to the Pacific. The Government further guaranteed interest on the bonds issued for construction of the Western section for 7 years. The interest guarantee amounted to \$13,000 per mile on the Prairie section, and to three-quarters of the total cost on the Mountain section. The entire cost of the Western section owned by the Grand Trunk Pacific, a subsidiary of the Grand Trunk, was to be met by the issue of bonds, guaranteed either by the Government or the parent company. The Eastern section was to be leased to the Grand Trunk for 50 years, free of rental for the first 3 years, and thereafter at 3 per cent of the cost of construction which was \$160,000,000.

37. The Government provided assistance to the Grand Trunk Pacific Railway Company in conformance with the national policy of encouraging the development of Canadian trade and the transportation of goods via all-Canadian channels. These conditions were stipulated in the agreement between the parties dated July 29, 1903.<sup>14</sup>



38. At the same time the Canadian Northern was endeavouring to expand its operations into a transcontinental system. By 1905 it owned almost 350 miles of track in eastern Canada while in the Prairies its track extended as far west as Edmonton. By 1915 the remaining sections between Ottawa and Port Arthur and Edmonton and Port Arthur were completed. Throughout its history the Canadian Northern system was dependent upon public aid. To the end of 1916 the railway had received subsidies amounting to \$31,286,720 from the Federal Government \$6,821,724 from the Provinces and \$765,704 from municipalities.

39. As early as 1914 the two new transcontinental lines were in serious financial difficulties. Substantial amounts of direct loans and guarantees of securities had been obtained from the Federal Government. By 1916 it was proposed that no further advances should be made, and it became apparent that it was necessary to re-appraise the Government's policy. A Royal Commission (Drayton-Acworth) was appointed in 1916 to inquire into the general problem of transportation in Canada, with particular reference to the status of the three transcontinental railways, the question of their re-organization and their possible acquisition by the State. The majority of the Commissioners recommended that control of the Grand Trunk, Grand Trunk Pacific and the Canadian Northern "be assumed by the people of Canada". The Commission were of the opinion that railway facilities in Canada had been overexpanded and that it was beyond the country's capacity to support three transcontinental lines.

40. From 1917 to 1923 the Dominion Government, through the process of receivership and ultimate financing, took over the operation of these privately-owned railways. In 1923, the publicly-owned railway properties together with various subsidiary corporations, were formed into the Canadian National Railways system, under the control and direction of a President and Board of Directors appointed by the Governor-General-in-Council. Thus, the Federal Government, permanently committed to the provision of transportation facilities and bound financially in the construction of railways, had no alternative, in the face of the failure of private enterprise, but to take over the existing lines.

"The maintenance of public credit and of railway service... were the considerations which lead to this great, and to a degree, involuntary extension of national railway policy to include the public ownership and operation of a vast national system. Nothing on the other hand, could more forcibly illustrate the integration of national and railway policy in Canada. Since 1923 it has been government policy to maintain the publicly operated system in commercial competition with the privately operated Canadian Pacific..."<sup>15</sup>

#### *Railway Expansion During 1920-1929*

41. After the formation of the Canadian National Railways System, there followed intense competition with the Canadian Pacific Railway. There was some justification for expanding facilities, especially for the construction of branch lines. The period of the 1920's was one of continued economic expansion, based as it had been at the turn of the century, on further Western settlement and development. Private investors and all levels of government were prepared to invest large sums of money in providing the necessary facilities and services, of which transportation was foremost. During the period 1920-1929, railways invested approximately \$700,000,000 in road and equipment, while the Dominion

spent \$236,000,000 on waterways and harbours. Once more, as in the case of the Grand Trunk and the Canadian Northern, railway facilities in the Dominion were expanded beyond the needs of the country.

#### *Freight Rate Regulation and National Policy*

42. The Crow's Nest Pass Act of 1897 referred to the setting up of a railway commission to regulate rates generally. In 1903, the Railway Act was passed establishing the commission. Its work for the first years consisted mainly of adjudicating questions of discrimination in the freight rate structure among localities and classes of shippers. However, the Commission did not seriously modify the structure in Western Canada as it had been established by the Crow's Nest Pass Agreement. The chief modification in the rate structure had been forced by the Government of Manitoba whose grain producers were not satisfied with the reductions under the Crow's Nest Pass rates. The result of the Manitoba Agreement with the Canadian Northern Railway in 1901 was that from 1903 to 1918 rates lower than the Crow's Nest Pass rates were in effect in Western Canada.

"In the Western rates case of 1914, the Railway Commission established maximum general rates for the Prairie Section... The case is perhaps the outstanding example of how the national policy of seeking to minimize differentials in transport costs among the regions of Canada has had to struggle with the real considerations of physical obstacles, the need of private companies for profit, and the difficulties of estimating a fair return on railway investment."<sup>16</sup>

43. The Eastern Freight Rates Case in 1916 resulted in permission to the railways to raise their rates east of Fort William. While the effect, in principle, was designed to achieve a greater degree of equality between the West and Central Canada, water competition in Central Canada meant that little use could be made of this permission.

"Thus the basic disparity of the general freight rate structure of Canada remained, as the premises from which the Commission worked did not permit them to equalize wholly the rates of western Canada with those of central Canada, and the national policy of regulation extended only to modifications of the differential and not to the use of positive means, by subsidy or statutory limitation, to remove the differential."<sup>17</sup>

44. In conformance with this national policy, the Federal Government, from time to time, has introduced measures designed to ease the high cost of transportation that has fallen on certain regions due to geographic location or to the absence of competition. In 1925 Parliament passed an act<sup>18</sup> which varied the terms of the Crow's Nest Pass Agreement. The Minister of Railways stated that it was the Government's intention "to give the Board of Railway Commissioners a free hand in the equalizing of rates throughout Canada in order that all parts of the country may be equally situated with others".<sup>19</sup>

45. This continued desire of the federal authorities for parity of rates between various sections of Canada can be illustrated by reference to Order-In-Council PC 886, 1925. It was a direction to the Board of Railway Commissioners of Canada and read in part as follows:

"...the policy of equalization of freight rates should be recognized... as being the only means of dealing equitably with all parts of Canada, and as

being the method best calculated to facilitate the inter-change of commodities between the various portions of the Dominion, as well as the encouragement of industry and agriculture and the development of export trade."

46. Once again while the approach to the ideal of sectional parity in rates was piecemeal and halting, at least these years had witnessed the acceptance by the Board of Railway Commissioners, encouraged by the Federal Government, of the policy of equalization of rates.

47. In 1927 an addition to statutory limitations was made as a result of the report of the Duncan Royal Commission on the condition of the Maritime Provinces in Confederation. Under the Maritime Freight Rates Act, rates in the Maritime section, extending westward to Quebec, were reduced by 20 per cent in order to assist the movement of commodities from the Maritime region to Central Canada and in the movement of commodities within the Maritime region. The Act, originally adopted in 1927 and subsequently amended, provided initially for a reduction of 20 per cent (in 1957, 30 per cent) in the Maritime and Quebec portion of westbound rates and of 20 per cent in rates on traffic moving within the designated "select area" of the Maritime Provinces and Quebec.

48. During the intervening years, highway improvement resulting in increased movement of freight by motor carrier, coupled with the deepening of the Welland Canal and the rebuilding of the locks, presented the railways with new competition. Central Canada and British Columbia have had the benefit of low freight rates by reason of their location or the development, at Government expense, of alternative forms of competitive transportation. Toll free canals and American railway competition have tended to reduce freight rates in Central Canada while the opening of the Panama Canal and the competition of United States rail carriers have served to reduce transcontinental railway rates to and from the Pacific Coast.

49. The desire to create parity between the various regions of Canada was evidenced by the recommendation of the Turgeon Royal Commission on Transportation, 1951, that class and commodity rates in Canada be equalized. In addition, this Commission introduced a new element in the freight rate structure, that of the payment by the Federal Government of a subsidy of approximately \$7,000,000 a year to the two railway systems as compensation for the cost of maintenance of their lines across the so-called "traffic desert" north of Lake Superior.

50. The East-West Bridge subsidy is another example of national policy directed towards regional parity. While compensating the railways for the lack of revenue north of Lake Superior the national government was in fact lowering rates to and from the non-competitive Prairie region.

51. Since the end of the Second World War, there has been a vast expansion in highways and an extremely rapid growth of motor transport as a competitive factor, particularly in Central Canada. The increasing competition of motor carriers has made it more and more difficult for the railways to serve the national policies for which they were designed and at the same time operate at a profit.



52. Since 1951, the conditions and regulations under which Canada's railways have operated have been governed by the two factors of ever increasing competition from water and motor carriers and by price and wage inflation. The increase in railway operating costs has been met by the Board of Transport Commissioners by grants of horizontal percentage increases in freight rates. These horizontal increases have operated to increase the sectional disparity in rates which national policy since 1897 has sought to diminish. Thus the national policy of reducing sectional disparity has been frustrated by the practice of granting increases which augment this disparity to the jeopardy of the national economy.

#### *Federal Assistance For Highway Construction*

53. The Dominion Government has shown a continuous interest in highway construction since Confederation. The two most recent and outstanding instances of federal participation in this field are assistance granted to the provinces under the Trans-Canada Highway Act of 1949, and, as noted below, under the "Roads to Resources" programme. Under the Trans-Canada Highway Act, the Federal Government, in the ordinary course, contributes 50 per cent of the cost of construction of approved mileage of the east-west transcontinental Trans-Canada Highway, and contributes up to 90 per cent where construction is particularly costly. "Up to March 31, 1964, contractual commitments for new construction on the (Trans-Canada) Highway amounted to \$806,308,072, of which the Federal share was \$492,764,659. Federal payments to the provinces for prior, interim and new construction totalled \$413,741,225".<sup>20</sup>

#### *Federal Assistance For Pipeline Construction*

54. Assistance by the Federal Government to private enterprise in the provision of transportation facilities in the furtherance of national policy can be further illustrated by reference to the construction of the section of the Trans-Canada pipeline across northern Ontario in 1958. The capital required was provided jointly by the Government of Ontario and by the Dominion Government. The line was constructed by Northern Ontario Pipeline Corporation, a federal crown corporation, and on completion was leased to Trans-Canada Pipelines Limited on terms which were to make early purchase by the Company fairly certain. In the words of the Minister of Trade and Commerce at the time:

"The requirement that Canadian markets so far as possible be first provided for is a requirement of national policy. If any disability were placed upon the development of the gas industry by this national policy, it would be proper that this disability be if possible, counterbalanced. . . Private enterprise alone faced serious difficulties in financing a pipeline stretching across the sparsely-populated areas of northern Ontario, a line from which relatively low return on investment must be expected during the period of building up the central Canadian market. Some kind and degree of public intervention appeared necessary and proper."<sup>21</sup>

#### *Transportation Policy and Northern Development*

55. The most recent instance of national policy for the economic development of the various regions of Canada is Federal Government policy for development of the natural and human resources of Northern Canada. The North is

expected to provide the same impetus to national economic growth and expansion as did Western Canada in the country's earlier history. National policy for development of the North is a re-affirmation of national policy as it has been applied since Confederation to the provision of transportation facilities—largely through government assistance and initiative.

56. The Federal Government's program for the accelerated development of the northern Territories under its jurisdiction is part of its overall policies for national development to facilitate and encourage the efficient use of Canada's resources. In co-operation with the Federal Government, a number of the provinces, including Manitoba, have instituted similar programs for the development of their northern regions. An outstanding example of co-operation in northern development was the joint federal-provincial "Roads to Resources" programme for the provision of highway transportation facilities. The Federal Government, by agreement with all the Provinces, shared the cost of construction of roads to develop new areas with high resource potential.

57. Under this policy \$75,000,000 is being expended to assist the provinces in building 4,732 miles of development roads to link the settled parts of Canada with the North and to provide access routes to rich resource areas. The total federal contribution to June 30, 1964, was \$55,817,034 for a completed total of 2,625 miles. In the Northwest Territories and Yukon Territory, the Federal Government is building approximately 2,200 miles of similar development roads at a cost of \$100,000,000.

58. Pursuant to national policy, federal assistance is provided to the other agencies of transportation—rail, water and air—in Northern Canada. In rail transportation in the northern regions of the provinces, the Government in recent years has provided a subsidy of \$25,000 per mile for construction of a 50 mile section of the provincially-owned Pacific Great Eastern Railway northward to Prince George in British Columbia, and a similar subsidy to the Canadian National Railways for construction of a portion of the branch line from Beattyville to Chibougamau and from St. Felicien to Chibougamau in Northern Quebec. In more recent years the new projects of railway development in opening up Canada's frontier have been completed: A Canadian National Railways line to the new Mattagami Lake base metal mining area in Northwestern Quebec and the 430 mile Great Slave railway from Grimshaw, on the Northern Alberta Railways to the rich zinc-lead deposits at Pine Point on the south shore of Great Slave Lake in the Northwest Territories.

59. The Federal Government, through Northern Transportation Company Limited, a Crown Corporation, provides a common carrier water transportation service in the Mackenzie River watershed for the movement of commodities in Northern Alberta and in the Mackenzie District of the Northwest Territories. The Department of Transport provides an annual "sea lift" in the Arctic Ocean for the supply of northern communities and the defence bases. In addition, the Department of Transport services shipping through Hudson Strait and Hudson Bay to the Port of Churchill by provision of lights, beacons, radio and direction finding stations, modern charts, icebreaker patrol ships and aerial ice reconnaissance.

60. Under its policy of assisting in the provision of airports and landing facilities, the Federal Government has been meeting all or part of the cost of providing such facilities in order to further northern development.

*Conclusion: Transportation in National Economic Policy*

61. The evolution of national economic policy since Confederation, particularly in relation to the provision of transportation facilities, can be said to lay emphasis on two objectives. Firstly, the achievement of rapid economic expansion. Secondly, the equalization of the benefits of such expansion in all regions of Canada.

"To depart further from, indeed, not to return to the ideal of a national railway policy of furnishing rail transport at minimum differential rates throughout the various regions of Canada would, in the light of history, be to undo the work of a century of nation building and make the position of Manitoba and the West in Confederation one of hardship and discrimination."<sup>22</sup>

*MacPherson Royal Commission: Views on Transport Policy*

62. The MacPherson Royal Commission in dealing with transportation in national policy stated in Volume II of its Report, Chapter 7, page 180 (page 93, 1966 edition), as follows:

"National Transportation Policy is that particular component of the total national policy which is concerned with the effective use of transportation resources in Canada. Its primary function is to ensure that the transport system provides the comprehensive service which is economically adequate for the transportation needs of the country as a whole."

63. The Commission determined "that the principle concern of national transportation policy today should be with ways and means of achieving the most efficient transport system to serve the needs of the economy..."

The Commission continued at page 181 (page 93):

"This conclusion, a central theme of this Report, does not disregard the use of transportation as an instrument of national policy. Rather it conveys that, for transportation as an instrument of national policy to be most salutary for Canada in the future, its adaptation to the exigencies of the new competitive environment will warrant more consideration than may have seemed necessary in the past."

64. The Commission left no doubt that . . . "The primary objective of national policy in Canada has always been to preserve and enhance the political and economic welfare of the Canadian people". At page 187 (page 96) the Commission goes on to say:

"Participation by public authorities in the actual building of Canada's railway system was only one aspect of the National Policy as it pertained to rail transportation. Governmental influence was also pervasive in the development of the freight rate structure, particularly with respect to the movement of traffic in the Maritimes and on the Prairies."

At page 188 (pages 96-97):

"After passage of the Railway Act of 1903 the newly-established Board of Railway Commissioners became an important vehicle for



influencing the railway freight structure in the interests of national policy objectives. Decisions of the Board in a number of key rate cases which came before it during the first quarter of the twentieth century had the effect of ameliorating in significant degree the disparity in rate levels between Eastern and Western Canada which had developed in the previous period. They did not, however, entirely succeed in providing the equivalent of the natural advantage which the presence of a system of transportation by water in Central Canada has always given to shippers in that area. Thus, in a variety of ways and with a reasonable degree of success the Federal Government, through the use of both statutory and regulatory rate making powers, sought to influence the character of the railway system so as to help overcome obstacles to national unity and promote the welfare of the country as a whole."

At page 192 (page 98), Volume II of the Report:

"... We must, if we are to obtain an adequate understanding of the complexities of transportation policy in Canada, recognize the fact that the transportation system which has become established in this country is essentially dualistic in nature—reflecting both its function as an instrument of national policy and as a vehicle of private venture operating along the lines of commercial principles. The existence of this situation has meant that national transportation policy in Canada has traditionally had to serve two masters—the dictates of public necessity and the requirements of commercial enterprise. Since the objectives of the former are not necessarily consistent with those of the latter—they are, in fact, often in conflict—the successful execution of transport policy in Canada has never been a simple task."

At page 195 (page 99):

"... There is a danger, however, that an approach to National Transportation Policy which is excessively preoccupied with its financial aspects may tend to overlook the high national objectives which would not otherwise have been attained; it can also result in a lack of understanding of the complex character of Canada's transportation structure and the problems which beset it."

#### *Clause I*

65. Clause I of Bill C-231 indicates that it is intended to provide an effective guide to the interpretation of the entire statute. It is our opinion that the Clause, as presently worded, overemphasizes the need for greater freedom of the railways to fix rates. This distorts the true purpose of a national transportation policy as above defined. The real purpose of a national transportation policy must surely be to serve the needs of the public using the various modes of transportation. The interests of the users of transportation services must remain paramount. To a considerable extent, the interests of such users will be best served by the free play of competition between competing modes of transport. Nevertheless, as the Royal Commission Report recognized, shippers must be protected against excessive charges in those areas where there is no effective alternative mode of transport. This protection will only be partial unless the shippers are also protected against unjustly discriminatory pricing practices by the railways or other modes of transport which will have the effect of increasing

freight rates unduly in some regions and creating disadvantages for some shippers. In a cost-oriented rate structure, as is envisaged by this Bill, it will appear obvious that users must be concerned not only with the level of rates in relation to the actual costs of carriage but also with the relationships between rates. The provision of adequate railway facilities is also an essential part of national transportation policy and the rates themselves are of little significance if the facilities and services do not exist to serve the users.

66. We suggest an amendment to Clause I of Bill C-231 as follows:

"It is hereby declared that the *provision of an adequate*, economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) regulation of all modes of transport will be such as to protect the users of transport services where there is no economically effective alternative mode of transport available;
- (c) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (d) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation."

## CHAPTER II

### RAIL LINE RATIONALIZATION

67. Bill C-231 deals with the problem of rail line rationalization and the proposed statutory solution is contained in Sections 314A to 314H, Clause 42, beginning at page 20. Before the MacPherson Royal Commission the Province of Manitoba referred to the problem of light density lines and indicated that as a result of many operations maintained at present on branch lines, the railways are obliged to offer and to maintain services at less than their out-of-pocket costs. As a result, an additional burden is placed on the freight shipper. This problem of branch line losses is not a new one; in fact, one can trace it almost to the time of transcontinental rail line construction in Canada. Solution of the problem is particularly difficult because of the various interests involved. Construction of the branch lines was a decision of management, but the present day cost of operating and maintaining them must be borne by the freight shipper.

68. The Commission accepted the recommendations of the Province of Manitoba relative to light density lines and indicated that there should be

established a branch line rationalization fund. In Volume I at pages 41-42 (page 19) of its Report the Commission stated:

"...because of the institutional and social considerations associated with the railways' historic role as instruments of national policy and because of the close economic ties of certain industries to the rails, an abruptly implemented programme of rail line abandonment will cause dislocations which would not be in the interests of the community as a whole. At the same time we believe that the finances of the railway companies and rail shippers cannot and should not bear alone the burden of the necessary period of adjustment. It is here that the Government of Canada can acknowledge the nation's responsibility. In the interests of change with a minimum of dislocation, the continuation of rail services on uneconomic branch lines should be supported over a period of time sufficient to enable the adjustments to be made both by investment in rail and investment tied to rail movement. There should continue to be opportunity to examine, through a regulatory agency, proposals for rationalization of rail plant and the public concerned ought to continue to present its views on the impact of this rationalization in each case under review in order that the regulatory agency may assign priority.... This gradually diminishing maintenance of uneconomic services should be undertaken by the public at large, both in recognition of the current importance of railways in Canada and in order to lift the burden of those uneconomic services from the rate structure so that the railways may be able to put an attractive price upon the services they offer..."

69. It is clear, as above stated, that any resultant burden is due to management's decision taken some years ago in determining the size of rail plant. There was intensive competition between the two railway systems in opening up new territory. The Canadian Pacific Railway stated before the Duff Royal Commission on Transportation 1931-1932 that it was forced to construct branch lines which might have been deferred without injury to the public simply as protection against the threat of invasion by the Canadian National Railways. The Canadian National defended its policy of expansion on the grounds that it was necessary in order to maintain the company's relative position with regard to its rival, the Canadian Pacific.

70. The Duff Royal Commission stated at paragraph 27 of its Report:

"If good sense had prevailed the executive officers of the two systems would, in 1923, have planned together to meet the transportation requirements of the country, and would have refused to promote or permit irrational and wasteful competition."

At paragraph 58 of the Report:

"To sum up, it is clear that there was intense rivalry between the two systems in new territory, particularly in the Provinces of Saskatchewan and Alberta. The construction program of one company was responded to by an equal or greater program of construction of the other. The development of this territory did not meet expectations, and the railways now find themselves with additional traffic mileage and an increased burden of capital charge . . .



A policy of co-operation would have avoided a considerable part of this expenditure, probably one-third."

71. While the situation was clearly created by the decisions of railway management, a solution requires a co-operative effort on the part of both railways and users. It was in recognition of this fact that the Province of Manitoba advanced its recommendations. The problem incorporates multiple interests. While railways are desirous of minimizing losses occasioned by non-compensatory operations, it is the freight shipper, who ultimately must bear the cost of any non-compensatory service and who has a primary interest in seeing that the various operations are, in fact, compensatory. From the purely financial viewpoint this approach would appear irrefutable. However, as indicated in our discussion of national economic policy and national transportation policy, the operation of rail transportation facilities in Canada was not predicated solely in terms of railway revenues. There is also the important aspect of public convenience and necessity.

72. The Commission was faced therefore with this dual interest of the railways and the shippers, one desiring more profitable and efficient operations, the other desiring to safeguard their economic development. The Province of Manitoba recommended that the losses suffered by the railways in the operation of light density lines operated in the national interest should be met out of a branch line rationalization fund; that a planned program for rationalization be determined and that the railways be compelled to enter into a comprehensive program for the rationalization of rail plant. We emphasize the word "rationalization" as opposed to "abandonment". The Manitoba proposal was a positive one, stressing that the railways, through co-operative measures, through leasing of facilities, agreement on joint running rights, etc., could create a more favourable environment for the operation of existing rail lines. It was not just a matter of tearing up existing rail lines.

73. The other aspect of the Manitoba proposal was that losses occasioned through the operation of light density lines should be removed, for rate making purposes, from the Classification of Accounts. The reason for this must be obvious. The concern of the Province of Manitoba, as indicated, was twofold. There was the need for a more efficient rail transportation system in the country so as to achieve the proper allocation of transportation resources but more important, the need for efficiency was due to the fact that inefficiency resulted in increased cost to the shipper.

74. The intent of the relevant Sections of Bill C-231 reflect Manitoba's recommendations. One important matter must be commented on and that is the need to stipulate in the legislation that the losses associated with the operation of light density lines must be removed from the Classification of Accounts for rate making purposes if the shipper is to receive the benefit and the safeguards intended by our proposal. In other words, our proposal which was supported by governments and associations of transportation users across Canada, was not designed to be another "handout" to the railways. The purpose of the subsidy was to alleviate and eventually eliminate the burden presently borne by the freight shipper.

*Clause 42*

75. Section 314A (b), definition of branch lines, page 21. The Bill defines branch line as:

"... a line of railway in Canada of a railway company that is subject to the jurisdiction of Parliament that, relative to a main line within the company's railway system in Canada of which it forms a part, is a subsidiary, secondary, local or feeder line of railway, and includes a part of any such subsidiary, secondary, local or feeder line of railway."

76. It is our opinion that such terms as "subsidiary", "secondary", "local" or "feeder" are difficult of determination and could lead to extensive unnecessary argument in the preliminary stages of determining what, in fact, are branch lines. We suggest that the approach taken as to the definition of passenger trains might properly be incorporated relative to branch lines. Section 314 I (1)(a), page 29, defines "passenger trains" as: "... such trains as the Commission declares by order to be passenger trains for the purposes of this section..." We would therefore suggest an amendment to Section 314 A (b) to read:

"branch line" means a line of railway in Canada of a railway company that is subject to the jurisdiction of Parliament that is declared by order of the Commission to be a branch line for the purposes of this section and other relevant sections."

77. We propose an amendment to Section 314 B (4), page 21, dealing with the verification of actual losses by the Commission. The new section will read as follows:

"If the Commission is satisfied that the application to abandon the operation of a branch line has been filed in accordance with the rules and regulations of the Commission, the Commission shall conduct an investigation affording the company and other interested parties the opportunity to make submissions and after such investigation including public hearings as the Commission deems necessary, prepare a report setting out the amounts, if any, that in its opinion constitute the actual loss of the branch line in each of the prescribed accounting years and the report shall be posted by the company in each station on the line in accordance with any regulation of the Commission in that behalf."

78. In Section 314 C (1), page 22, we would delete the term 'uneconomic' in line 13 since this term is nowhere defined in the Section and insert the term 'actual loss' so that lines 12 and 13 would now read: "... determine whether the branch line is likely to continue to incur an actual loss..." etc. Similarly in the case of Section 314 C (3), page 23, delete the word 'uneconomic' in line 15 so that line of railway which incurs an actual loss, the period (i)...etc. On page 27 thereof should be abandoned..." etc. In Section 314 C (4), page 24, the word 'uneconomic' in line 7 should be deleted and lines 6, 7 and 8 will now read: "If the Commission determines that the operation of a branch line or segments thereof should be abandoned..." etc. In Section 314 C (5), page 24, delete 'uneconomic' in line 18 and lines 17, 18 and 19 will now read: "If the Commission determines that the operation of a branch line or segment thereof should not be

abandoned..." etc. In Section 314 C (5) subparagraphs (a) and (b) page 24, should be amended to read:

"(a) if the Commission finds that since the last consideration there is no longer an actual loss incurred in relation to the operation of the branch line, it shall reject the application for the abandonment of the line but without prejudice to any application that may subsequently be made for the abandonment of the operation of the line; or

(b) if the Commission finds that the branch line or a segment thereof continues to incur an actual loss, it shall determine whether the operation of the line or segment thereof should be abandoned as provided in subsection (4) or continued as provided by this subsection."

79. At page 26, Section 314 E (1)(a)—definition of "claim period". We propose that subsection (a) read: (a) "claim period" means, in relation to any line of railway which incurs an actual loss, the period (i)...etc. On page 27 Section 314 E (1)(c) delete that subsection and then in Section 314 E (2) on page 27 we suggest that it be amended to read: "When a line of railway or any segment thereof has incurred an actual loss within a claim period, the company operating it may file...etc."

80. The Province of Manitoba favours a program of railway rationalization rather than any wholesale abandonment of rail lines. Some of the factors affecting changes in the demand for rail transportation are land productivity, size of farm, size of equipment, proportion of grain traffic to that of other agricultural products, distance to shipping points and to alternative shipping points, size of urban communities, and services offered by communities to farmers. There can be no question that the abandonment of a branch line will shift transportation costs from the railways to the producer. There may be direct economic losses to the communities that lose rail services. Provincial governments and rural municipalities will be forced to shoulder increased expenditures for new roads and the maintenance of existing roads. Grain elevators will have to be rebuilt. These factors must be weighed by the Commission in determining the economic and social costs of abandonment.

81. Rail rationalization is not merely the abandonment of uneconomic branch lines but the more efficient utilization of existing rail plant. It is for this reason that the Province of Manitoba suggested that in an investigation relative to branch line operations, all railway lines in the area be studied so that the most efficient rationalization of plant might be attained, having in mind the economic and social cost to the communities and the users of rail services. We believe that the rationalization of rail lines can result in a major advance in national transportation policy. The Commission will require the confidence and co-operation of all levels of government and public organizations as well as the railways to assure the success of the rail rationalization program.

### CHAPTER III

#### BURDENS IN THE FREIGHT RATE STRUCTURE

82. The relevant Sections of Bill C-231 are 314 I and 314 J. Term (b) of the Terms of Reference of the MacPherson Royal Commission stated that the Commission was to inquire into and report on:

"(b) the obligations and limitations imposed upon railways by law for reasons of public policy, and what can and should be done to ensure a



more equitable distribution of any burden which may be found to result therefrom."

83. We have discussed one of these burdens, namely any burden resulting from the operation of uneconomic branch lines. The other aspect dealt with by the Commission was that relating to passenger services, including commuter services were matters of managerial discretion, and did not represent any mean—that based on its 1958 annual report, the Canadian Pacific Railway had passenger train miles representing 36.7 per cent of total train miles while passenger revenue represented only 7.2 percent of total rail revenue.

84. The railways had argued before the Commission that the passenger services were matters of managerial discretion, and did not represent any meaningful burden. After repeated requests by interested parties it developed that the passenger losses in 1958 in the case of the Canadian National totalled \$50,358,000 and in the case of the Canadian Pacific, \$27,650,669. The Province of Manitoba recommended to the Commission that the railways should be encouraged to achieve efficiencies in rail services by the elimination of duplicate services and by other means as are available to them. Relative to actual net losses resulting from trunk line passenger and related services, if the services are deemed to be in the national interest, then the losses should be met from the national treasury. Of utmost importance was the recommendation that the losses resulting from passenger and related services should be removed from the railways' Classification of Accounts for the purpose of setting rates on the movement of freight.

85. We included in our consideration of passenger and related services the problem of commuter services. It was, and remains our opinion, that these losses represent a unique problem. In the United States an attempt is being made by the municipalities and railroads concerned to solve this problem on a co-operative basis. A similar approach is necessary to a solution of the Canadian problem. This will require discussion between representatives of the Federal, Provincial and Municipal governments and the railways concerned. A final decision must rest on the particular facts in each instance, both regional and fiscal. But the losses resulting from commuter services should not be a burden on the general freight shipper nor on the federal treasury. The ideal situation would be one wherein commuter services would yield sufficient revenue to meet the fully distributed cost of providing the service. On the assumption that the railways are unable to impose the necessary level of rates, we suggested:

- (1) that the services be abandoned or
- (2) if deemed to be in the interest of the locality concerned, losses occasioned by that service, which we define as the shortfall of revenue below variable cost, should be underwritten by the municipalities and/or provinces affected, and
- (3) that the Uniform Classification of Accounts be revised to exclude the cost of commuter services for freight rate making purposes.

In this regard, we would refer to the statement of Mr. G. Campbell, then research economist for the Canadian National Railways who was quoted in "Canada Transportation", July, 1959, in an article entitled "Big Problems and Big Possibilities" as stating:

"I predict that if a way could be found for the railways and metropolitan authorities to work together co-operatively in the planning,

operation and financial support of comprehensive commuter services, the benefits to the entire area would be so great that were I to estimate an equivalent in dollars, I would be accused of gross exaggeration."

86. The railways and municipal authorities, since the findings of the Royal Commission, have undertaken studies and discussions in this regard. But we note in Bill C-231, Section 314 I, subsection (9) page 31 that:

"This section does not apply in respect of a passenger-train service accommodating principally persons who commute between points on the railway of the company providing the service."

We recommend that this subsection be deleted.

#### CHAPTER IV

#### RATES RELATIVE TO THE MOVEMENT OF GRAIN AND GRAIN PRODUCTS FOR EXPORT

87. We are concerned here with Clause 50, Sections 328, 329, and 329 A, pages 37 to 40, of Bill C-231. With reference to Section 328 it will be noted that the export rates on grain and flour moving to Fort William and Port Arthur and similarly on the movement to Vancouver or Prince Rupert are fixed at the existing level. As the Committee is aware, a considerable volume of grain moves to the Port of Churchill in Manitoba and has so moved under the existing export rates for over 30 years. The quantities shipped exceed 20 million bushels per year.

The rates to Churchill, which port serves the needs of an expanding area of the Prairie region, could be varied upward since they are not fixed under Section 328. The movement of grain and grain products to Churchill is covered by Section 329 (2)(b), but if the railway wishes to forego the subsidy, it could do so and raise the rates on the movement to Churchill. It is our opinion that such a provision is a retrograde step and would be detrimental to the agricultural industry of Western Canada. The importance to the Canadian economy of the movement of export grain is clearly reflected in the provisions of the Bill. It seems incongruous that the movement of export grain to the Port of Churchill, which should be encouraged rather than frustrated, is to be left in this uncertain position in the proposed legislation.

88. We therefore recommend an amendment to Section 328 by adding thereto a new subsection (3) to read as follows:

"(3) Rates on grain and flour moving from any point on any line of railway west of Fort William, Port Arthur or Armstrong to Churchill for export over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament shall be governed by the rates prevailing on the twentieth day of August, 1931."

89. With reference to Section 329 (1), we draw to the attention of the Committee that the Commission shall within three years inquire into the revenues and costs of the movement of grain to export positions pursuant to Section 328 and report such revenues and costs to the Governor in Council

"and the amount of payments necessary, in the opinion of the Commission, to assist such railway companies to meet the costs of operations in respect of the carriage of grain and grain products after the 31st day of December, 1969, at such level of rates..."

90. Under Section 329 A (3) which Section deals with the movement of export grain to Eastern seaboard, the Commission is instructed to determine from time to time a level of rates consistent with Section 334 and shall cause such rates to be published in the Canada Gazette. Section 334 states that rates shall be compensatory and defines what should be considered in determining variable cost for the movement of traffic. Sections 329 (1) and 329 A (3) should be consistent and we therefore recommend that Section 329 (1) be amended in order to conform in the following manner:

“Not later than three years after the coming into force of this section, the Commission shall determine in respect to the movement of grain and flour pursuant to section 328 a level of rates therefore consistent with section 334 and shall report to the Governor in Council, and the Governor in Council shall take such action as he deems necessary or desirable on the basis of that report.”

91. We recommend that Section 329 (2)(b) be amended to read as follows: (b) “on grain products *other than flour* moving for export...” etc. We also recommend for the sake of clarity that Section 329 (2) be further amended by deleting therefrom the words “the 31st day of December, 1966” and inserting therein the words “the 1st day of January, 1966”. The amended subsection will be consistent with the date appearing in subsection (4) of Section 329.

92. We draw the Committee's attention to the fact that under Section 329 rapeseed is defined as a grain in Western Canada whereas under Section 329 A rapeseed is not deemed a grain in Eastern Canada. On the other hand, soya beans are a grain in Eastern Canada under Section 329 A but are not a grain in Western Canada.

## CHAPTER V

### ALTERNATIVES TO HORIZONTAL INCREASES

93. The Sections relative to this matter in Bill C-231 are Sections 334, 335, and 336. In order to properly assess the purpose and implications of the above Sections, one must review the background which led to the setting up of the MacPherson Royal Commission, and more particularly, the major inequity that the Commission was directed to deal with.

94. In September, 1958, the Canadian railways applied to the Board of Transport Commissioners for an interim increase of 19 per cent in the general level of freight rates and 25 cents per ton on coal and coke to yield an amount calculated to meet the estimated costs of increased wages to the non-operating railway employees which were pending as the result of negotiations with the union and the recommendations of a conciliation board. The Board, after hearings in October, allowed a horizontal increase of 17 per cent plus 22 cents per ton on coal and coke by order effective December 1, 1958. All the provinces, except Ontario and Quebec, immediately appealed this decision to the Governor in Council, requesting that the increase be rescinded or suspended.

95. It was the submission of the provinces to the Governor in Council that there must be a halt to the present method of granting freight rate increases by means of the horizontal percentage method. They indicated that since 1948 freight rates had been increased by a cumulative total of 157 per cent and that



with each increase there was a further attrition and erosion in the traffic moved by rail with the result that in the hearings of October, 1958, it was admitted by the railways that about 75 per cent of the proposed increase would be extracted from 32 per cent of the traffic. It was further submitted that the major part of this ever-shrinking 32 per cent was traffic from or destined to the Western Region and the Maritime Region; those areas not having the extensive road systems of the Central Provinces nor the benefits of a highly developed water route. These regions represent the so-called "captive traffic" for railway transportation, and it was those same regions which have been constantly compelled to compensate the railways for any deficiencies in revenues.

96. The provinces further submitted that general freight rate increases by means of the horizontal percentage method had and would continue to have a detrimental effect on the economic growth and development of the Western and Maritime Regions. If long established national policy for regional economic development and expansion was not to be frustrated, a critical re-appraisal of Canada's transportation system and its problems was imperative.

97. The Governor in Council dismissed the appeal and allowed the Board's order to become effective on December 1, 1958. As a result of the plea of the eight provinces for a complete revision of the freight rate structure, the Government established a Cabinet Committee to report on a plan to ease the impact of the latest increase on specific areas and undertook to appoint a committee of experts to conduct a long range study of the distortions in the freight rate structure which had arisen as a result of the post-war horizontal rate increases.

98. In an announcement dated November 26, 1958, the then Acting Prime Minister said in part:

"A study is being undertaken at once to work out measures to relieve against inequities in the freight rate structure including any that may be aggravated by the present increases. Steps are also being taken to set up a suitable body to review the general field of railway problems and policy. This study will include not only a comprehensive consideration of the railway freight rate problem—including the situation of the long haul provinces in the west and in the Atlantic region—but also other specific problems which require solution if Canada's railways are to serve the national interest without prejudicing particular industries or areas."

99. Subsequently on May 13, 1959, by Order-in-Council PC 1959—577, the MacPherson Royal Commission was authorized. The terms of reference read in part as follows:

"The Committee of the Privy Council have had before them a report from...the Prime Minister, stating that it is in the national interest that a comprehensive and careful inquiry be made...into problems relating to railway transportation in Canada and the possibility of removing or alleviating inequities in the freight rates structure."

Term (a) stated that the Commission shall consider and report upon:

"(a) Inequities in the freight rate structure, their incidence upon the various regions of Canada and the legislative and other changes that can and should be made, in furtherance of national economic policy, to remove or alleviate such inequities."

### *Inequity of Horizontal Percentage Rate Increases*

100. There was no single subject before the MacPherson Commission that caused greater anxiety and aggravation of shippers in particular regions than the practice of the Board of Transport Commissioners in awarding freight rate increases by means of the horizontal percentage method.

101. The problem was not a new one. This practice had received comment from Royal Commissions on Transportation since 1927. In that year, the report of the Duncan Commission (Royal Commission on Maritime Claims) was received and under the heading of "Incidence of 'Horizontal' War Increases" the following appears at page 26-27:

"There is one further very important feature of the railway situation, as it affects the Maritimes, which calls for special mention. In one sense it is connected with the problems that we have been discussing, but its immediate incidence is not so inter-connected with the general problem as to make it impossible to deal with it separately. Indeed the reaction of the burden which it imposes is so great that, in our view, it should be dealt with as a special problem. We refer to the system under which, during the late war flat percentage increases (known as "horizontal increases") were added to railway rates.

The railway administration, in giving evidence before us, agreed that long-distance traffic, particularly heavy traffic, had been seriously prejudiced by the operation of the horizontal increases—The Railway Board, we were informed by the railway administration, felt themselves prevented from working out the proposition in that way, since when the advances were made they were made horizontally, and some declaration had been made at the time that when reductions came they also would be made horizontally.

In view of the importance of railway rates to long-distance and heavy traffic, we have no hesitation in recommending that the matter should be taken into fresh consideration by the Railway Commission, that they should be relieved from the necessity of regarding themselves as bound by any such declaration as is referred to, but should be free to consider the whole question on its merits."

102. In the report of the Turgeon Royal Commission in 1951, the matter of horizontal increases was dealt with at length. The findings of that Commission appear at pages 45-47 and at pages 51-62 of the report.

At page 47 the Commission said:

"There is no better evidence of the disturbed feeling in the country caused by the nature of the present freight rate structure than the fact that the seven provincial governments have united to complain of it; while on the other hand the two central provinces raised no protest whatever. There is no such thing as a freight rate grievance in Central Canada to arouse the people of that area as the people of the West and the Maritimes have been aroused."

At page 51 the complaints of the eight provinces were summarized as follows:

"That the application of rate increases by the horizontal increase method:

1. Disturbs existing "relationships";

2. Accentuates existing disparities;
3. Aggravates the disadvantage already suffered by long-haul shippers;
4. Destroys existing "differentials";
5. Assumes that all traffic can bear the same percentage increase when this is not the case; and
6. Worsens the competitive position of manufacturers subject to long-haul, especially when they have to bring materials in for fabrication."

103. The Turgeon Commission's principal conclusions and recommendations on the problems are found at pages 61-62 of the report where they state:

*"Conclusions*

1. Applications for uniform horizontal increases to all freight tolls assume that all freight can, under all conditions, bear an equal burden of increase. This is an incorrect assumption.
2. Horizontal increases, although preserving rate relationships percentage wise, disturb them in cents per 100 pounds (or other unit) in so far as shippers and consignees are concerned, and this is of much importance to them.
3. Horizontal increases aggravate the disadvantage already suffered by long-haul shippers and consignees."

The recommendations of that Commission were as follows:

"No legislative amendment dealing with horizontal increases is recommended. The Railway Act in its present form gives to the Board ample power to deal with matters of this kind.

In all future increase cases it is to be hoped that the Board and the Railways will pay due regard to the considerations referred to in this section."

104. The general approach and desire of the Turgeon Commission is best illustrated by reference to the report of that Commission where in dealing with the problem (at page 47), the Commission states:

"It appears therefore that the answer to the question raised lies mainly with the railways themselves, since the means of removing the cause of dissatisfaction is within their own initiative. It has been pointed out to the Commission that in this regard railway management in the past has often proceeded, in fixing freight rates, without sufficiently considering the interest of the community to be served, and without even showing a proper conception of the long-run interest of the railway."

There were the conditions and the situation at the time of the report of the Turgeon Royal Commission in 1951.

*Developments Since Turgeon Commission*

105. What transpired since that date was indicated in the evidence of the Honourable Duff Roblin, Premier of Manitoba, at the MacPherson Royal Commission's regional hearings in Winnipeg.

"Q. Mr. Premier, from your knowledge, were the recommendations of the Turgeon Commission re horizontal increases implemented?

A. I am afraid not. In the light of such unambiguous recommendations by the Turgeon Commission the Provinces might properly have expected



some relief from this serious burden, but in the rate cases immediately following publication of the report, the Board of Transport Commissioners continued to follow their past policies in this regard. The continued concern of the provinces was voiced in their appeal to the Governor in Council in 1953:

On July 4, 1951, in its first judgment following the publication of the Royal Commission Report, the Board postponed implementation of the recommendations of the Royal Commission in this regard. In its next judgment, dated January 25, 1952, the Board disposed of the matters by suggesting that shippers should place their grievances first before the railways concerned and later if they think fit, make an application to the Board. The Board, while adopting the views of the Royal Commission at page 62 of its Report with regard to the sudden shock to the economy caused by large horizontal increases, contented itself with saying that the increases imposed by the judgment were small— (Submissions to His Excellency the Governor General in Council in re Freight Rates—7 per cent Case by the Petitioner, Ottawa, May 1, 1953, p. 28)—

Since 1950 there have been seven applications for general rate increases—all but one by way of horizontal percentage increases—resulting in a total increase of 77 per cent.”<sup>23</sup>

106. That the inequity created by horizontal increases continued to exist was clear from the statement of the Acting Prime Minister on November 26, 1958 prior to the establishment of the MacPherson Commission. It was further corroborated by the statement of the Minister of Transport at the time that Bill C-38, which was legislation intended to roll back the most recent horizontal freight rate increase of 17 per cent, was presented to Parliament. The Acting Prime Minister stated:

“It is, however, recognized by the government that there are serious inequities in the present freight rate structure which have both contributed to, and been aggravated by, the system of horizontal rate increases.”

The Minister of Transport on March 24, 1959 stated:

“The government has decided that the most effective relief is to be afforded by confining the subsidy to a reduction in the non-competitive class and commodity rates . . . These rates . . . are the ones which have taken the full percentage increases authorized by the Board over many years.

This manner of alleviation concentrates the benefits on the long haul traffic where rates have not been kept down by competition . . .”<sup>24</sup>

107. In disregard of the statements of the railways themselves before the Duncan Commission and the clear directive of that Commission; in disregard of the findings of the Turgeon Commission in 1951 and its directive to the railways to correct this very serious abuse; in disregard of the clear and unambiguous statements of the Acting Prime Minister and the Minister of Transport, we find

the Canadian Pacific Railway on September 17 and 18, 1959 stating before the MacPherson Commission as follows:

At page 100 of the transcript:

"Commissioner MACPHERSON: And we have other inequities, or alleged inequities, such as the horizontal increase, that we have heard of? That has been discussed?

Mr. SINCLAIR: That is an alleged inequity.

Commissioner MACPHERSON: Yes, but it is one that is of importance to some parts of the country?

Mr. SINCLAIR: They have said it was.

Commissioner MACPHERSON: And yet you would not think it is important? The important thing that I want to refer to is the fact that you emphasized only the statutory rates yesterday and again this morning.

Mr. SINCLAIR: Yes, sir.

Commissioner MACPHERSON: But this Commission must deal with all inequities, and possibly the greatest inequity of all is that freight carries the load for the whole rail enterprise?

Mr. SINCLAIR: Well, with respect, sir, I can answer Yes to the questions in which you have outlined the history of them, but I would not agree that horizontal increases result in inequities."

#### *Impact on Rate Structure*

108. We present, by way of illustration, certain statistics which will indicate and point up the impact of horizontal percentage increases in the freight rate structure. Table I, page 41, shows Comparative Rates for East-West and East-East Movements, 1949 and 1965. The rates in this table are based on data published in the "Waybill Analysis" issued by the Board of Transport Commissioners and illustrate the dollar per ton distortion between the various regions of Canada.

109. Table II, pages 42 and 43 is a comparison of average freight rate per ton on traffic to or from Manitoba points, with average freight rate per ton on the same commodity moving elsewhere in Canada. This table indicates that the average Manitoba shipper pays \$11.06 per ton as opposed to a Canadian average of \$7.40 per ton. The existing distortion between the Manitoba shipper and the average Canadian shipper is further aggravated by the method of permitting horizontal percentage increases.

TABLE I

Commodity	Date	East to West		East to East	
		Rate per Ton	Average Haul Miles	Rate per Ton	Average Haul Miles
Cereal Food.....	1965	\$57.76	2,018	\$13.43	330
Preparations.....	1949	23.27	1,587	4.10	234
Increase.....		\$34.49		\$ 9.33	
Soda Products.....	1965	\$34.25	2,081	\$ 6.95	342
	1949	28.11	1,901	6.93	316
Increase.....		\$ 6.14		\$ .02	
Iron or Steel Pipe.....	1965	\$37.07	1,635	\$ 8.41	298
	1949	32.84	1,915	7.83	290
Increase.....		\$ 4.23		\$ .58	
Agricultural Implements.....	1965	\$63.73	1,599	\$16.15	269
	1949	30.08	1,620	9.29	297
Increase.....		\$33.65		\$ 6.86	
Vehicle Parts.....	1965	\$74.41	2,178	\$ 9.93	205
	1949	41.82	1,754	10.44	357
Increase.....		\$32.59		(\$ .51)	
Refrigerators.....	1965	\$69.48	1,777	\$14.43	323
	1949	43.11	1,560	7.00	77
Increase.....		\$26.37		\$ 7.43	
Laundry Equipment.....	1965	\$83.51	2,132	\$11.31	316
	1949	41.21	1,792	10.00	373
Increase.....		\$42.30		\$ 1.31	
Furniture.....	1965	\$77.90	2,002	\$15.15	322
	1949	43.44	1,653	11.18	315
Increase.....		\$34.46		\$ 3.97	
Soap.....	1965	\$46.94	1,998	\$ 8.72	371
	1949	35.44	1,504	8.50	362
Increase.....		\$11.50		\$ .22	
Containers, metal.....	1965	\$82.11	2,098	\$14.05	259
	1949	27.60	1,354	11.34	316
Increase.....		\$54.51		\$ 2.71	



TABLE II

COMPARISON OF AVERAGE RATE PER TON  
(Excluding Statutory Rates)

Commodity	Man.	Can.
21 Cereal Food Preparations.....	\$ 45.65	\$ 20.10
23 Mill Products.....	5.27	7.81
45 Soya Beans.....	12.51	8.26
49 Apples.....	34.90	33.54
101 Sugar Beets.....	1.62	1.32
Total Agriculture Products.....	\$ 8.00	\$ 7.43
203 Cattle.....	\$ 25.41	\$ 34.58
211 Swine.....	14.01	15.86
215 Meats, Fresh.....	49.11	55.62
219 Packing House Products.....	29.94	29.69
233 Dairy Products.....	37.99	35.45
239 Hides, Skins and Pelts.....	34.07	19.26
299 Animals and Products.....	39.17	
Total Animal Products.....	\$ 33.78	\$ 35.71
305 Bituminous Coal.....	\$ 4.31	\$ 3.61
309 Iron Ore.....	2.00	1.64
313 Copper Ore and Concentrates.....	3.10	4.35
314 Copper-Nickel Ore and Concentrates.....	13.21	1.47
317 Zinc Ore and Concentrates.....	2.00	3.59
319 Ores and Concentrates.....	2.25	3.20
327 Gravel and Sand.....	.73	1.00
329 Stone and Rock (Ground and Crushed).....	2.91	1.69
348 Gypsum, Crude.....	3.26	.78
399 Products of Mines.....	9.92	
Total Mine Products.....	\$ 3.66	\$ 2.55
403 Posts, Poles, and Piling, Wooden.....	\$ 3.83	\$ 14.12
409 Pulpwood.....	4.30	3.11
411 Lumber, Shingles, and Lath.....	22.98	13.79
415 Veneer, Plywood and Built-up Wood.....	25.68	27.37
499 Products of Forest.....	11.26	
Total Forest Products.....	\$ 15.19	\$ 6.42

Commodity	Man.	Can.
501 Gasoline.....	7.62	5.07
503 Fuel, Road, and Petroleum Residual Oils.....	8.66	4.85
505 Lubricating Oils and Greases.....	18.45	18.83
507 Petroleum Products, Refined.....	8.66	8.82
533 Soda Products.....	35.98	11.04
539 Fertilizers.....	17.65	9.10
553 Drugs.....	38.39	34.18
559 Copper Ingot.....	30.49	17.15
563 Lead and Zinc Ingot.....	19.24	20.98
571 Metals and Alloys.....	32.58	18.89
583 Manufactured Iron and Steel.....	11.03	12.96
587 Iron and Steel Pipe and Fittings.....	30.27	19.00
591 Agriculture Implements.....	47.16	53.45
595 Machinery.....	20.74	25.77
613 Automobiles, Passenger.....	48.55	53.69
615 Automobiles, Freight.....	69.37	79.85
623 Vehicle Parts.....	48.57	16.78
633 Cement: Natural and Portland.....	6.36	5.47
645 Lime.....	15.95	6.62
657 Newsprint.....	14.75	9.66
661 Wrapping Paper.....	7.41	15.10
665 Paper and Paper Articles.....	34.91	20.50
669 Paperboard, Fibreboard.....	19.87	12.60
671 Wallboard.....	15.93	14.52
685 Electrical Equipment and Parts.....	19.52	23.15
707 Refrigerators, Freezing Apparatus and Parts.....	52.99	37.38
709 Laundry Equipment.....	54.95	43.26
715 Furniture.....	78.82	52.44
749 Liquors, Malt.....	8.65	6.51
763 Canned Goods.....	27.47	19.80
769 Soap.....	34.80	29.47
773 Feed, Animal and Poultry.....	2.85	10.79
779 Containers, Metal.....	65.14	22.15
787 Containers, Returned Empty.....	13.14	8.49
789 Scrap Iron.....	3.46	3.85
795 Waste Materials for Remelting.....	.73	3.10
799 Manufactures and Miscellaneous.....	38.99	25.22
799A Manufactures and Miscellaneous.....	27.70	
Total Manufactures and Miscellaneous.....	\$ 20.30	\$ 12.87
GRAND TOTAL.....	\$ 11.06	\$ 7.40

SOURCE: 1964 Waybill Analysis.

110. During the hearings of the Royal Commission, in discussions with witness for the Canadian Pacific Railway, it was indicated that traffic terminating in the Western Region contributed 52.8 per cent of the additional rail revenue while representing only 25.0 per cent of the total tonnage within Canada, including grain moving at statutory rates unloaded at Vancouver and Churchill. (Volume 107, Daily Transcript, page 17845.) Table III on page 45 indicates that the inequity of horizontal increases is the result of emphasizing the increases in rates per 100 pounds on normal traffic. While the percentage increase may be applied equally on all rates, the resultant changes in cents per 100 pounds are indeed significant and clearly inequitable in application.

111. The foregoing material is presented as indicating the primary problem confronting the MacPherson Commission and an appreciation of this aspect of the evidence is imperative if we are to properly appraise the proposed solution as contained in Bill C-231. As stated by the MacPherson Commission at page 68 (page 31) of Volume I:

“ . . . In submissions from all over the nation complaints were brought before us concerning the increasingly onerous burden of rail freight rates with predictions of disastrous results which would follow any further increase in these rates. We are impressed with the seriousness of these complaints.

The complaints, while differing in other respects, were unanimous in condemnation of the device of the “horizontal” percentage rate increase.”

112. At pages 69-70 (pages 31-32):

“ . . . Dissatisfaction arises because of the inequitable manner in which the increases are passed on . . .

Viewed in this context, the various complaints made against high and rising freight rates are an amalgam of the traditional complaints against high transportation charges for the longer distances and the increasing degree of disparity and inequity which a general percentage increase throws on to the long-distance commodity. Consequently, long-haul commodities already suffering a transportation cost disadvantage to a market, have to bear a percentage increase which is, of course, larger in dollars than a shorter haul, with disturbing effects on the ability to compete in the market. In addition, and this is the real aggravation, the pattern of competition has tended to affect most intensively the shorter-haul commodities. Thus the necessary increase cannot in fact be applied horizontally: some shipments bear none of the increase, some a little of it, and some a great deal—sufficiently more, indeed, to attempt to make up for the increments which cannot be placed on the other traffic.

TABLE III

	Average Rate per Ton by Type of Rate
CLASS RATES	
Maritime to Maritime .....	\$ 17.17
Maritime to Central .....	21.49
Maritime to Western .....	ø
Central to Maritime .....	33.90
Central to Central .....	19.77
Central to Western .....	75.26
Western to Maritime .....	108.20
Western to Central .....	59.05
Western to Western .....	22.44
Canada .....	30.40
NON-COMPETITIVE COMMODITY RATES	
Maritime to Maritime .....	2.09
Maritime to Central .....	7.33
Maritime to Western .....	45.29



	Average Rate per Ton by Type of Rate
<b>NON-COMPETITIVE COMMODITY RATES</b>	
Central to Maritime .....	12.46
Central to Central .....	4.42
Central to Western .....	48.15
Western to Maritime .....	30.54
Western to Central .....	25.68
Western to Western .....	5.64
Canada .....	6.90
<b>NORMAL RATES</b>	
Maritime to Maritime .....	2.51
Maritime to Central .....	7.78
Maritime to Western .....	45.29
Central to Maritime .....	15.12
Central to Central .....	4.87
Central to Western .....	52.95
Western to Maritime .....	32.71
Western to Central .....	26.11
Western to Western .....	5.94
Canada .....	7.72

SOURCE: 1964 Waybill Analysis.

This is a phenomenon of unequally pervasive competition. And, however right the railways are in claiming that it is beyond their power to extract the necessary increases in revenues from much of the competitive traffic, the fact remains that in a competitive environment, the tool of the "horizontal" percentage rate increase in self-defeating for the railways, as well as inequitable for the shippers still dependent on the railways...

It is correct to infer, as the railway companies do, that the total expenses of the operation must be borne by the users of rail facilities. But it is not correct to infer that equity is preserved regardless of how the burden is borne. No shipper could properly claim to suffer inequity if he were asked to bear only the average percentage increase in costs."

113. At pages 15-19 (pages 7-9):

"...It is apparent, therefore, that as far as its effects are concerned a horizontal increase is horizontal in name only—it does not apply evenly across the entire rate structure but is applied selectively by the railways according to what they think the traffic can bear... With permission from the Board to so apply the "horizontal" increases and with a need to secure additional revenues, it is perhaps understandable that the railways would act in this way—that is, obtain as much as possible of their needed revenues from the traffic which is the least subject to competition and as little as possible from that traffic where competition is keen and alternative forms of transport readily available...

At the same time, of course, shippers throughout the country are affected by this continuing search by the railways for sources of revenues

through the medium of "horizontal" rate increases—and they are affected, generally speaking, in proportion to the degree of competition which relates to their particular traffic. Those shippers who have alternative means of transport readily available are relatively insulated from the effects of railway rate increases, whereas shippers who remain dependent upon the railways—the so-called "captive shippers"—are apt to find themselves bearing the full brunt of the horizontal increases. It is this process which has been developing with increasing intensity over the past decade and which is a direct outcome of the uneven impact of competition on the transportation system... In brief, the benefits which the new competitive transportation environment has brought to the Canadian economy are not being distributed in an equitable fashion and it is this phenomenon which is at the root of the "freight rate inequity problem" which is the principle *raison d'être* for this Commission...

It is the regions of Canada where competition to the railways is less intense upon which the present freight rate structure bears most heavily. Although monopoly no longer characterizes the transportation system as a whole in Canada, there are still vestiges of it in areas which because of inadequate highway facilities, distance from markets, or other factors which have inhibited the development of competition, continue to be dependent to varying degrees on railway transport... The end result appears to be that the uneven impact of competition, transmitted through the freight rate structure, tends to produce a greater relative increase in the price of moving goods by rail for the Atlantic and Western shipper, than that experienced by shippers in Central Canada. This effect is particularly noticeable on long-haul shipments to the markets of Central Canada. For example, the marketing consequences of a 20 per cent increase to a long-haul shipper who has been paying \$500.00 a carload to get his product to the Toronto market and will now pay an additional \$100.00 are obviously more serious than those upon his short-haul competitor who has been paying \$50.00 a carload to get to the same market and will now pay only \$10.00 more... To put it another way, it would appear that an attempt is being made to preserve the traditional railway rate structure, based on differential pricing and cross subsidization, by means of the profits obtained by increasing the level of rates in the residual monopoly areas of the transportation system and not, as was originally done, from the profits derived from high rates on high-grade traffic. Thus the divisive effects of distance and other geographic and economic factors which the railway freight rate structure in Canada has traditionally sought to mitigate are, under present competitive conditions, being aggravated by that selfsame freight rate structure. It is obvious that the long-run effects upon the Canadian economy of a continuation of this process are a matter for serious concern."

114. This is generally the background to the Commission's recommendations relative to maximum rate control. The evil that the Commission was attempting to deal with was that resulting from progressive horizontal percentage increases.

At page 96 (page 49) of Volume II of the Royal Commission Report:

"... The power of the state must, in transportation as in other monopoly areas, to attempt to substitute for competition..."

There are reasons other than optimum resource allocation for the nation's concern with maximum rate control. The first is that such control sets the limit to the burden which any particular shipper must expect to bear. Second, the regulatory authority in acting as an appeal board provides the forum for the shipper who feels he is being unjustly treated..."

And in dealing with the objectives of maximum rate policy the Commission stated:

"It would be desirable that it provide some solution to the additional burdens which fall on the long-haul shipper" (page 99, (page 50) Volume II.)

#### *Maximum Rate Provisions*

115. Two aspects of Section 336 require attention. Firstly, the applicability of the maximum rate formula which involves the definition of a captive shipper and the determinability of a captive shipper. Secondly, that dealing with the formula itself.

116. The Royal Commission in dealing with this problem recommended that all shippers should have the right to declare themselves captive. At page 104 (page 52) Volume II, the Commission stated:

"The decision to seek captive status must rest with the shipper. His reasons for initiating the action will be dissatisfaction with the rate he is forced to pay."

117. The legislation, as presented, envisages that even shippers who are now manifestly captive must establish this fact by special application to the Commission. It is difficult to understand why the legislation requires that those intended to benefit from the Royal Commission recommendation be subjected to this difficulty of establishing their right to a maximum rate. It should be remembered that the Royal Commission designed the formula as an alternative to the present class rate structure. All shippers in Canada have the right to a class rate on the movement of their commodities and this right does not entail an obligation to ship a given portion of their goods.

118. The Commission at page 110 (page 55) stated:

"...Our problem, as we see it, is to attempt to substitute a more realistic method of maximum rate control for the traditional class rate maximum, which will protect the captive shipper and not limit the operation of commercial principles in the growing competitive sector."

119. The Royal Commission on a number of occasions referred to the Freight Rates Reduction Act. This Act in itself was evidence of the Parliament of Canada's determination that class and non-competitive commodity shippers were at least shippers to whom the term "captive" could apply because it was these shippers that the Parliament of Canada determined should be relieved of the excessive burden caused by the last general freight rate increase in 1958. We are now advised in the provisions of Bill C-231 that the only captive shipper is one in respect of whose goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier. The definition itself creates



difficulties of interpretation. More recently statements made before this Committee would indicate that the practical effect of the Section relative to that segment of shippers previously considered captive would be minimal.

120. We are now faced with the situation where it is suggested that the only likely recipients of protection under the legislation are class rated shippers who represent one per cent of the tonnage carried by Canadian railways. In the 1965 Waybill Analysis the class rated traffic represented 1.7 per cent of the tonnage and approximately 4.6 per cent of the total revenues of the railways. If we are to accept this position we must assume that the intent of the legislation is to leave without any control mechanisms approximately 98 per cent of the traffic. In addition, Members of the Committee must remember that the existing class rates are, in fact, the maximum which the railways are permitted to charge any shipper in Canada. These are rates granted to the shippers not by the gratuitous act of the railways, not by contract, but by the regulatory authority. If the above definition of captivity is to be accepted, there would be introduced a most alarming concept into rate making in this country. We would have a situation where the present class rates are done away with, where all rules and regulations relative to unjust discrimination and unreasonableness of rates are eliminated, where a new maximum rate formula is introduced, the impact of which is unknown since cost data has been denied. In addition, the legislation requires that if this one per cent of the shippers prove their captivity, they then have to enter into a contract with the railway to ship 100 per cent of the traffic. They would also be required to open their books to the railway and the regulatory agency to make certain that they have in fact shipped 100 per cent. Moreover, if they fail to ship 100 per cent they would be liable for the difference in rates plus 10 per cent, as liquidated damages. We would in fact, therefore, have introduced into the class rate structure the concept of the agreed charge.

121. The Freight Rates Reduction Act was introduced after the last general freight rate increase to alleviate the burdens carried by class and non-competitive commodity shippers. To exclude these shippers from the category of captive shipper would be a retrograde step.

122. We would add a new subsection (2) to Section 336 as follows:

"(2) A shipper of goods in respect of which the rates in effect on the 1st day of January, 1965, were class and commodity rates subject to the Freight Rates Reduction Act, shall be deemed to have no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or combination of rail carriers."

It should be noted that the Royal Commission determined that captivity should be a matter of self-declaration and not a matter of determination.

123. The Commission recommended a procedure to regulate and control the ceiling on freight rates or, in other words, to regulate and control the component in a freight rate which is in excess of variable or out-of-pocket costs. At page 99 (page 50), Volume II of its Report it stated:

"It is our conclusion that maximum rate control can come closest to attaining these objectives... if it is based on the variable costs of the particular commodity movement plus an addition above variable cost such as will be an equitable share of railway fixed costs."

124. The evil to be cured was the disproportionately large share of railway fixed or overhead costs which were borne by the traffic "dependent on rail service". The formula contained in Bill C-231 fails completely to provide any protection for the very type of shipper whose problems gave rise to the Royal Commission. Maximum rates are to be calculated by determining the variable cost of carriage of goods in 30,000 pound carloads and adding thereto an amount equivalent to 150 per cent of that cost. In addition, it provides for a minimal deduction for loadings over the stipulated amount.

125. The formula is based upon three arbitrary assumptions all of which are open to serious challenge: (a) the selection of the key weight factor of 30,000 pounds, (b) the contribution to overhead fixed at 150 per cent, and (c) the minimal deductions allowed for heavier loadings.

*(a) Key Weight Factor of 30,000 Pounds*

126. The variable cost referred to in Subsection (2) of Section 336 is based on carloads of 30,000 pounds and has no regard for the actual weight of shipment. The uncharacteristically low 30,000 pound level is presumably based on the words of the Royal Commission Report. At page 100 (page 51), Volume II:

"Thus the key weight upon which it is reasonable to base a maximum rate is the weight of the unit load the competing carrier could use to give his optimum rate."

This statement is a contradiction in terms. Maximum rate control is to protect the captive shipper for whom, by definition, there is no alternative effective means of transport. The use of truck carrying capacity as a measure of captive traffic rates is simply not relevant. If there were economically effective truck competition, maximum rate control would not be required. The application of the formula proposed by Bill C-231 provides meaningless protection for the shippers of heavy commodities and long-haul shippers. The 30,000 pound figure is not representative of the actual situation in railway loading. The average loaded weight of all Canadian traffic, excluding grain, shown by the 1965 Waybill Analysis, is 87,000 pounds (43.5 tons) per car. The non-competitive commodity traffic average weight per car was 54.5 tons. The maximum rate formula to be meaningful should be designed to protect the non-competitive commodity traffic with average loading characteristics at present of nearly 110,000 pounds. With maximum rates based on 150 per cent over variable cost for a 30,000 pound carload less the minimal reduction proposed in Bill C-231, the percentage increase over variable cost for the actual weight moved will range from 150 per cent at 30,000 pounds to over 570 per cent for 140,000 pounds (See Table IV, page 52, line 3).

*(b) The Contribution to Overhead of 150 per cent*

127. This figure of 150 per cent appears in the Royal Commission Report and is an arbitrary determinant which is nowhere supported by the Commission Report nor in the published studies of the Commission in Volume III. The Province of Manitoba was denied railway cost data to verify the reasonableness of the figure or the impact of an alternate percentage factor as subsequently dealt with herein.

(c) *Deductions Allowed for Heavier Loadings*

128. Railways have advantages of cost, particularly over longer distances, as a result of ability to reduce unit costs through heavier loading and volume movement. Trucks, on the other hand, can provide effective competition, particularly on shorter hauls and in areas of higher traffic density. We have been denied any relevant Canadian railway data on costs in relation to distance and loadings, but investigation was made into published Interstate Commerce Commission (United States) carload mileage cost scales in the Western Region to illustrate economies of heavier loading. A 500 mile line haul box car movement was selected. Results showed a total out-of-pocket cost of \$169.20 per car of 30,000 pounds and \$230.40 per car of 120,000 pounds. While the weight carried in the more heavily loaded car is 300 per cent greater, the total out-of-pocket costs are only 36.2 per cent greater. The cost per 100 pounds is shown as 56.4 cents in the lighter and 19.2 cents in the heavier car or 66.0 per cent lower. While the I.C.C. cost scales are not based on Canadian costs, they do indicate the cost relationships between various minimum weights. The maximum rate formula in Bill C-231 did not give the shipper the benefit accruing from reduction in unit cost due to heavier loading. Based on 150 per cent of variable cost of 30,000 pounds, the proposed formula results in a 6.6 per cent reduction in rate at 50,000 pounds, 9.9 per cent at 70,000 pounds, 11.5 per cent at 90,000 pounds, 12.6 per cent at 110,000 pounds (I.C.C. data 500 mile haul).



TABLE IV  
STATEMENT SHOWING THE PERCENTAGE BY WHICH MAXIMUM RATES AS PER BILL C-231  
EXCEED THE RAILWAYS' OUT OF POCKET OR VARIABLE COSTS

Line Particulars	Carload Minimum Weight in Thousands of Pounds												
	12	20	30	40	50	60	70	80	90	100	110	120	140
1. Out of Pocket costs in cents per 100 lbs.....	169.2	104.8	72.6	56.6	46.9	40.5	35.9	32.4	29.7	27.6	25.8	24.4	22.1
2. Maximum Rate in cents per 100 lbs. as per Bill C-231.....	455	273	182	182	170	170	164	164	161	161	159	159	157
3. Percentage Maximum Rate exceeds Out of Pocket Costs.....	169	160	150	222	262	320	357	406	442	483	516	552	574

Source: Line 1—100 Rail Carload Cost Scales by Territories 1961, Statement 5-63, Page 21, Eastern District—500 miles.

129. Under the maximum rate formula provided by Bill C-231 and using the figures contained in Table IV, the maximum rate for 30,000 pounds is \$1.82 per 100 pounds, while the maximum rate for 120,000 pounds is \$1.59 per 100 pounds. The rail revenue per car is therefore \$546.00 for the 30,000 pound movement and \$1908.00 in the case of the 120,000 pound movement. The applicable costs per car are \$217.80 and \$292.80 respectively. Therefore, while costs are \$75.00 greater per car, revenues are \$1362.00 higher. What should be particularly noted is that the shipper of the 30,000 pound car is required to contribute only \$328.20 per car towards railway overhead while the shipper of 120,000 pounds is compelled to contribute \$1615.20 per car.

130. The provision of a more equitable maximum rate formula requires that one or more of the assumptions on which Bill C-231 is founded must be changed. It is our considered opinion that the formula requires revision both to reflect the economies of heavier loading and the percentage relationship of contribution to total variable cost. Our basic proposal is that the rates be based on

- (i) actual variable cost at 30,000 pounds plus
- (ii) a percentage equal to the percentage difference that total permissive earnings are to Freight variable cost, plus
- (iii) one-half the savings in variable cost at 30,000 pounds and at the actual loadings, where loadings exceed 30,000 pounds (calculated in increments of 10,000 pounds)

#### *Percentage Factor*

131. As Committee Members are aware, existing regulations as to tolls chargeable are made pursuant to Section 328 of the Railway Act which authorizes the Board to set just and reasonable rates. The method utilized by the Board is to consider the costs of the Canadian Pacific Railway referred to as the "yardstick railway", determine the costs associated with the operation of the railway system, and determine the additional earnings permitted the railway, referred to as "the permissive level of earnings". In the last general revenue case in November, 1958, it was estimated that the total operating costs for the Canadian Pacific Railway for the year 1959 would be \$480,279,000. To this amount the Board added the permitted earnings which they describe at page 12 of their Judgment.

"...In those cases the Board used a "requirements" method of formula to determine the annual financial requirements of Canadian Pacific's rail enterprise, and, having determined them at a certain amount, the Board then authorized a permissive level of freight rates that would, in its opinion, afford Canadian Pacific an opportunity to earn the set amount annually if events adverse to such opportunity did not occur. Canadian Pacific was used as the yardstick for rate making and the rates so permitted for Canadian Pacific were also permitted for Canadian National and other railways.

The formula, as applied for the first time in the Board's 21 per cent Judgment in 1948, provided for a permissive level of Net Rail Income for Canadian Pacific made up as follows":

The amounts permitted in 1948 then follow. The Board continues:

In the Judgment of December 27, 1957, the amounts were:

Fixed Charges .....	\$ 13,038,000
Dividends on preference stock .....	3,012,130 (4%)
Dividends on ordinary stock .....	17,567,870 (5%)
Surplus .....	15,235,000
Additional allowance .....	2,400,000
<hr/>	
Total .....	\$ 51,203,000"

132. The requirements, as fixed in November, 1958, established the requirements of the Canadian Pacific at \$55,225,000. This, added to the total estimated expenses of the Canadian Pacific, established the permissive level of earnings for the Canadian Pacific Railway. In other words, the railway could not charge rates which in total would generate in excess of \$535,504,000. The permissive level of earnings approach is the only ultimate check the regulatory agency has on the reasonableness of rate levels. There are various methods adopted for the purpose of determining the reasonableness of tolls charged by regulated industries. One such method is the rate base rate of return. In Canada, however, in the case of railway companies it has been policy to use the Canadian Pacific Railway costs as the measure by establishing a permissive level of earnings. The proposed legislation introduces a serious departure from established practice since it will permit railways absolute freedom as to total earnings. There is to be no review of earnings, the only limitation being the apparently insignificant restriction on revenue from captive shippers. This was clearly not the intention of the Royal Commission. The Commission stated that the Canadian Pacific Railway continue to be regulated as to its permissive level of earnings. At pages 71-72 (page 33), of Volume I the following appears:

"...To the extent that we find that the public of Canada and the Government of Canada do have obligations to preserve rail revenues, we have already recommended. This alone will relieve the exposed shipper from some pressure for increases in rates. From this point on, should the railways make further application for freight rate increases, the permissive level of increase should be established by the Board of Transport Commissioners in such a way that no shipper is obliged to bear more than his fair share of increased railway costs. The fact that some shippers may not, because of competition, bear even that proportion is a fact of life in transportation today and does not in our view give rise to inequity between shippers. If increases in railway costs continue for any number of reasons, in spite of increases in productivity and in spite of the curtailment of excess plant and services, and should the railways choose to seek another general rate increase, no shipper can justly complain if, in using rail services, he is asked to bear his fair proportion of increasing costs."

133. Our formula reflects the clear statement of the Commission that the railways continue to be regulated as to permissive levels of earnings and also that the captive shipper bear his fair proportion, and only his fair proportion, of increased costs. In comparison, the proposed formula in Bill C-231 would create a most inequitable situation. The formula includes a fixed percentage (150 per cent) above variable cost, which percentage is related to no known factor. If the



costs of the railways increase by \$1.00 the shipper's maximum rate will increase by \$2.50 (150 per cent). It similarly would destroy any real incentive for improving rail efficiency since for each reduction in unit cost of \$1.00 the railway would be subject to a \$2.50 loss in revenue. This was not the decision of a Commission directed to determine inequities in the railway freight rate structure—to relieve the burdens on captive shippers and to recommend policies for achieving more efficient operation of the transportation system of Canada. Our formula carries forward the concept of permissive level of earnings and relates the percentage increase to the relationship between variable cost and total permissive earnings.

134. The decision of the MacPherson Commission as to the regulation of permissive earnings is consistent with those of the Turgeon Commission of 1949. In fact such regulation can be traced back to the Consolidated Railway Act of 1879, which authorized a 15 per cent profit on capital actually expended in the construction of a railway. In 1881 the Canadian Pacific Railway agreed to a maximum profit of 10 per cent. The decision of the Governor in Council in 1958 relative to the 17 per cent increase, and the resultant Royal Commission study, was, as previously stated, to determine an alternative to horizontal percentage increases. Eight years later a formula is suggested which in effect, grants the railways automatic increases of 150 per cent over costs. During the years 1946-1958, the percentage increases authorized totalled 157 per cent. The present formula will permit the Canadian railways to increase their maximums by 150 per cent of any increase in costs. If the present provisions of the Bill are adopted Canadian railways will be placed in a unique position relative to other regulated industries in Canada. Such provisions go beyond any proposals made by the railways themselves before the Royal Commission.

135. Table V, (page 57), illustrates the working of our proposed formula. The effect of the formula is to continue to relate the maximum rates to the permissive level of earnings. At present, that level has been fixed by the Board of Transport Commissioners at costs plus requirements totaling 55.8 million dollars. As the railways, under our proposal, become more efficient they will benefit from such increased efficiency. Similarly, our proposal assures that shippers paying maximum rates are not bearing more than their fare proportion of the total revenue requirements of the railway. To the extent that the railways conclude that they require additional monies over and above additional costs, they may apply to the Commission for an increase in the requirements formula. If it is contended that such a formula would erode rail revenues, it should be noted that this could only occur in those cases where the captive shipper is paying a disproportionate amount of the revenue requirements of the railways. In addition, Section 336, (11) provides that for a minimum period of three years there can be no application for the fixing of a maximum rate until the rate charged advances above the level payable as of the first of August, 1966. This latter provision gives added protection to rail revenues during the transitional period.

136. It is also our view that within three years the Commission should examine the permissive level of earnings of the Canadian Pacific Railway, and if necessary, adjust the requirements of that company and that the said permissive level of earnings should be examined on application at intervals of not less than three years.

TABLE V  
DETERMINATION OF PERCENTAGE FACTOR  
UNDER PROPOSED FORMULA

	\$,000	\$,000
Canadian Pacific		
System Railway Expense		430,919 <sup>1</sup>
Fixed Charges	15,581 <sup>2</sup>	
Dividends	20,620 <sup>2</sup>	
Surplus	15,235 <sup>2</sup>	
Allowance account		
transfer non-rail		
assets to rail	<u>2,400<sup>2</sup></u>	
Requirements formula		<u>53,836</u>
Permissive level of earnings		484,755
Canadian Pacific		
Freight variable cost		<u>230,808<sup>1</sup></u>
Amount permitted over		
Variable cost		<u>253,947</u>
Percentage permitted over		
Variable cost		<u>110.0%</u>

<sup>1</sup> Vol. III page 347 MacPherson Commission Report.

<sup>2</sup> JOR & R Vol. XLVIII No. 16A page 31.

137. It is our recommendation that Section 336 be further amended by amending Subsection (2) to read as follows:

"After being informed by the Commission of the probable range within which a fixed rate for the carriage of the goods would fall, the shipper may apply to the Commission to fix a rate for the carriage of the goods, and the Commission may after such investigation as it deems necessary fix a rate equal to the variable cost of the carriage of the goods, and an amount equal to the percentage difference that total permissive earnings are to freight variable cost..."

Section 336 (5) (b) (ii) be amended to read as follows:

"Except in any case coming under subparagraph (iii), if the carload weight of a single shipment of the goods concerned is forty thousand pounds or more, at a rate to be determined by adding to the variable cost of such carload shipment an amount equal to the percentage difference that total permissive earnings are to total variable cost, and in addition thereto one half of the difference between such variable cost and the variable cost of a shipment of thirty thousand pounds of such goods as determined under subsection (3). Rates need be determined under this subparagraph only as required and then for minimum carload weights based on units of ten thousand added to thirty thousand and a rate for a

carload weight in excess of forty thousand pounds and between any two minimum carload weights so established shall be the rate for the lower of such minimum carload weights,

138. Our proposed formula, meets the criteria established by the Royal Commission. At page 98 (page 50) of Volume II they state:

"To summarize and itemize we set out as objectives of maximum rate control the following:

1. It must limit the impact of railway monopoly upon shippers.
2. It fails in its purpose if it is seriously detrimental to the revenue position of the railways.
3. It must be flexible enough to reflect at intervals the changes in railway costs which will occur with the rationalization of plant and services.
4. It should leave incentives for efficiency with the railways and offer incentives to the captive shippers to use transportation as economically as they would in a competitive environment.
5. It must be in keeping with newer rate making practices.
6. It must not be in conflict with the optimum allocation of resources in transportation."

## CHAPTER VI

### UNJUST DISCRIMINATION AND UNDUE PREFERENCE

139. The relevant Sections of Bill C-231 are Clause 44, Section 317, (page 33) as to railways; Clause 27, pages 12 and 13 respecting commodity pipelines; Clauses 33 and 34, page 15 respecting motor vehicle transport; Clause 45, Section 319 (9), page 35; Clause 52 Subsections 3 and 4, page 40; Clause 57, Section 340 (3) page 49; Clause 68, Section 381, page 51 which refers to tolls and tariffs on telegraphs and telephones.

140. We suggest that Section 317 (1), page 33, be deleted and the following substituted therefor:

"Where the Commission receives information by way of a complaint or otherwise containing prima facie evidence that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the business of the complainant, or the public interest, the Commission shall conduct an investigation of the Act, omission, or result."

141. The proposed amendment clarifies the matter of who may come under the operation of the Section and reflects the statement of the MacPherson Commission at page 96 (page 49), Volume II:

"...the regulatory authority in acting as an appeal board provides a forum for the shipper who feels he is being unjustly treated."

As to the procedure, we have attempted to reflect that set forth in Section 334 (5) dealing with non-compensatory rates. In the case of Section 334 (5), the Commission receives information and is required to conduct an investigation. Consistency demands that the same rules should apply to the investigation of an



allegedly excessive rate as apply to a potentially depressive rate. Section 317 (1) refers to "rates which may allegedly affect the public interest". The definition and determination of "public interest" creates unnecessary difficulties. The Section is meant to protect the shipping public against prejudicial acts of the railway. The proposed amendment in no way affects the intent of the Section and the Commission retains the broad discretionary rights and determinants set out in Section 317 (2).

142. An amendment will be required to Section 317 (3), page 34. It will now read:

"(3) If the Commission, after a hearing, finds that the act, omission or result in respect of which the appeal is made is prejudicial to the business of the complainant, or to the public interest, it may make an order requiring the company to remove the prejudicial feature in the relevant tolls or conditions of carriage of traffic or such other order as in the circumstances the Commission considers proper, or it may report thereon to the Governor in Council for any action that is considered appropriate."

143. The amendments will provide the same degree of protection under the Railway Act as is now provided a shipper under Section 32 (10) of the Transport Act.

144. Clause 52, page 40, refers to the repeal of the present subsections (2) to (5) of Section 333 of the Railway Act. Bill C-231 proposes a new subsection (3) as follows:

(3) "A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission."

We assume that there was an oversight in the drafting of the subsection since it fails to provide that the tariff need be filed at all. We refer to Section 368, page 50, which reads:

368. "No express toll shall be charged in respect of which there is a default in filing with the Commission, or that has been disallowed by the Commission."

In the case of Section 368, which reflects standard practice, the tariff must be filed. We suggest that subsection (3) of Section 333 be amended to read as follows:

(3) "A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission, but the said tariff must be filed within the time limit prescribed by the Commission."

145. We agree that the railways should be permitted to act on a tariff reducing tolls immediately on the issue of the tariff. But if the protection provided by Section 317 is to be meaningful other shippers must have knowledge of the reduced tolls in order to determine whether there is discrimination or injury resulting from the reduction of tolls by the railway.

146. Subsection (4) of Section 333 states that the tolls appearing in the tariff are to be conclusively deemed "lawful tolls" ... "and the company shall

thereafter, until such tariff expires, or is disallowed by the Commission, or is superseded by a new tariff, charge the tolls as specified therein." It is our opinion that there must be a power of suspension of tolls by the Commission. If this is not provided there could be a situation where shippers were forced to pay rates which were subsequently determined to be unlawful, without any provision for redress. This would be particularly onerous if the investigation of the tolls by the Commission was over an extended period of time. We propose an amendment to subsection (4) of Section 333 as follows:

"Where a freight tariff is filed and notice of issue is given in accordance with this Act and the regulations, orders and directions of the Commission, the tolls therein shall, unless and until they are suspended or disallowed by the Commission, be conclusively deemed to be the lawful tolls and shall take effect on the date stated in the tariff as the date on which it is to take effect, and the tariff supersedes any preceding tariff, or any portion thereof, in so far as it reduces or advances the tolls therein; and the company shall thereafter, until such tariff expires, or is suspended or disallowed by the Commission, or is superseded by a new tariff, charge the tolls as specified therein."

Our proposed amendment to subsection (4) of Section 333 will now conform with the provision contained in subsection (3) of Section 340, page 49 dealing with suspension of passenger tariffs. Similarly, it will conform with Section 381 (4) (a) which grants the Commission the power to suspend or postpone tariffs or tolls relative to telegraphs and telephones.

147. If this amendment is not acceptable, we suggest that the Committee add a provision to Section 333 which would reflect the same treatment for shippers as granted the railways under Section 336 (7). Under the latter Section where a rate has been fixed, and the shipper defaults under the terms of the agreement, the railway is to receive the difference between the fixed rate and the rate otherwise chargeable, plus 10 per cent by way of liquidated damages. An equitable alternative to the power of suspension would be to provide that, where any tariff is disallowed by the Commission, the shipper would have a comparable right of recovery and damages by providing an addition to Clause 52, Section 333, in the form of a new subsection (5) as follows:

"Where a freight tariff has been disallowed by the Commission, in accordance with subsection (4), the shipper shall be entitled to the difference between the charges actually paid and those deemed to be lawful and in addition liquidated damages at a rate of 10 per cent of the lawful rate on all goods shipped.

148. Section 319 (9), page 35, refers to the offering of similar facilities for motor carriers. It states:

"If a railway company provides facilities for the transportation by rail of motor vehicles or trailers operated by any company under its control. . ."

It is not clear that the subsection covers the operation of piggyback by the railway companies themselves, in addition to subsidiary controlled companies. The Bill would be less effective if it were to permit the railways to discriminate against motor carriers relative to piggyback services offered by the railways

themselves, while protecting the motor carriers against any discrimination relative to subsidiary trucking companies owned by the railways or under their control. We therefore recommend that subsection (9) be amended to insert the words. . . "by the company or any company under its control" in line 15, page 35, and similarly, in line 21, insert the words. . . "by the company or any company under its control." This amendment will now reflect and conform to the recommendation of the Royal Commission in Volume II where in describing discrimination on inter-modal service, they state:

" . . . Discriminatory pricing favouring a railway company's own vans or containers over those of other carriers is a form of inter modal subsidization which, because of the nation's interest in rational allocation of resources, must not be permitted by the Board." (pages 79-80, page 40)

"However, railway ownership of truck lines involves two policy recommendations concerning this diversification. The first concerns the real economic advantages of combining road and rail facilities. To the extent that these exist, railways must be required to offer to all truckers rail facilities at prices and under conditions the same as are offered to rail-owned trucks." (page 81, page 40)

## CHAPTER VII

### COSTING PROCEDURES IN THE NEW RATE STRUCTURE

149. Accurate costing of railway operations is vital to the recommendations of the Royal Commission on Transportation as incorporated in Bill C-231. The costing of the movement of export grain rates, the determination of subsidies relative to uneconomic branch lines and passenger services as well as the determination of minimum and maximum rates all require accurate analysis of railway costs. The costs of railway operations can be segregated into variable and fixed or constant costs. Variable costs have been defined as those costs that change with or are influenced by increases or decreases in traffic. Depending upon the time factor involved, variable costs may include the costs of changes in plant and equipment which in the short run might be considered as fixed or constant. Fixed costs do not vary with the volume of traffic and must be distributed across or recaptured from the total operations of the railway. They are costs which cannot be traced to any particular output and are sometimes referred to as overhead or burden or indirect costs.

150. The Royal Commission premised its approach to the new transportation environment on the basis of cost of service rather than value of service. It stated at pages 46-47 (pages 24-25), Volume II:

"The traditional theory of railway pricing was a sophisticated and complex example of price differentiation. Commodities of high value were charged a price high enough to compensate for the low prices charged to low value commodities. With revenue requirements in mind, rates were set to average out the differences in cost of the service between easily accessible, more settled regions and those more remote—

While the costs of performing the services were an important factor in the over-all consideration of the profitability of the companies, they were never an important element in the pricing of railway services for



each commodity. The accepted philosophy was that low-valued commodities would not move except at a price which was little above the out-of-pocket costs of performing the services and that the assistance required for such traffic could be contributed, without harm by high-valued commodities. This ruled out the necessity of a pricing system based entirely on costs. Added to this, was the difficulty of separating the joint and common railway costs incurred in performing the services, and the lack of mathematical tools to calculate the costs of a particular movement."

At page 59 (page 31), Volume II:

"The great strides made recently in the techniques applicable to the costing of rail movements give confidence and precision to the ratemakers. There is no reason to expect that these techniques will not be further refined particularly if railway accounts are set out to aid in the process. For the media of transportation within the new competitive environment the pricing of services on a cost-oriented basis has become inescapable.

We regard this change to a more cost conscious pricing policy in all modes of transportation as consistent with the objectives of the National Transportation Policy."

#### *Relevant Sections Re: Costing*

151. Sections 314A and 314 I define "actual loss" as the term is to be interpreted for the purposes of determining uneconomic branch lines and uneconomic passenger services.

152. Section 329 sets out a procedure for costing which is to be applied in the case of the movement of export grain under the Crow's Nest Pass Agreement.

153. Section 334 sets out a procedure for determining a compensatory rate which in turn is the applicable procedure for the costing of the movement of export grain to Eastern seaboard under Section 329A.

154. Section 336 (3) sets out a procedure for determining variable cost in the maximum rate formula.

155. Sections 387A and 387B define variable cost.

156. There is an inconsistency in the cost concepts employed in these Sections. For example, Section 314A and Section 314I state that "actual loss" means the excess of the costs incurred by the company in the operation of the line or passenger service over the revenue derived from movement of traffic related to the line or service. To fully understand Sections 314A and 314I it is necessary to consider Section 387A, page 53, which states that:

"In computing the costs of the undertaking of the company for the purposes of Sections 314A to 314J—there shall be included such allowance on a periodic basis

(a) for depreciation, and

(b) in respect of the cost of any money expended, whether or not the expenditure was made out of borrowed money, as to the Commission seems reasonable in the circumstances."

157. These items are also components in computing the costs of the movement of export grain and the determination of a compensatory rate. Section 336

(maximum rate determination) is not referred to in Section 387A. Therefore costing for maximum rate purposes will be governed by Section 336 (3) which states that:

"In determining the variable cost of the carriage of goods for the purposes of this section, the Commission shall

- (a) have regard to all items and factors prescribed by regulations of the Commission as being relevant in the determination of variable costs.
- (b) compute the costs of capital in all cases by using the costs of capital approved by the Commission as proper for the Canadian Pacific Railway Company."

158. The question immediately arises as to whether the determination of variable cost under Section 336 (3) is meant to be a different procedure than the determination of variable cost in Section 334 or the costing of actual loss in Sections 314A to 314J.

#### *Cost of Money*

159. Specific cost factors will be determined by the Commission but reference must be made to Section 336 (3) relative to cost of money. Pursuant to that subsection the Commission is to include in determining variable cost for the purpose of fixing maximum rates, an amount for costs of capital, based on the costs of capital deemed appropriate for the Canadian Pacific Railway. Since the maximum rate is the variable cost plus 150 per cent it follows that the maximum rate will include an amount equal to the cost of money plus 150 per cent of cost of money so determined. In other words, for each \$1.00 cost of money allowable to the CPR., the captive would be required to pay \$2.50. This surely was not the intention.

160. We therefore recommend that Section 336 (2) be amended to read:
- "... the shipper may apply to the Commission to fix a rate for the carriage of the goods, and the Commission may after such investigation as it deems necessary fix a rate equal to the freight variable cost of the carriage of the goods and an amount equal to (-) per cent of the freight variable cost plus an amount computed as being the cost of capital applicable to the carriage of such goods. . ."

We recommend that Section 336 (3) be amended to read:

"In determining the variable cost of the carriage of goods for the purposes of this section, the Commission shall have regard to all items and factors prescribed by regulations of the Commission as being relevant in the determination of variable costs but excluding therefrom any costs associated with the cost of capital."

Present subsection (3)(b) is deleted. New subsection (4) will read:

"The Commission shall compute the costs of capital in all cases by using the costs of capital approved by the Commission as proper for the Canadian Pacific Railway company."

#### *Classification of Accounts*

161. We recommend that Clause 69, page 53, Section 387, be amended by adding thereto a subparagraph (c). The section will now read:

"The Commission shall review and revise as necessary the uniform classification of accounts, at intervals not longer than every two years, to ensure that railway companies maintain separate accounting

- (a) of the assets and earnings of their rail and non-rail enterprises;
- (b) of their operations by modes of transport; and
- (c) of operations of passenger trains or services including commutation trains and services and express and mail services."

162. The purpose of the additional subparagraph is to make certain that the burdens represented in operation of passenger and related services are clearly segregated in the accounts of the railway. This is essential if the Commission is to have proper data upon which to base the subsidy payments incidental to the operation of these services and in addition to remove from the freight shipper any costs so occasioned.

#### *Costing of Other Modes of Transport*

163. Clauses 27 and 33, pages 12 and 15, refer to compensatory rates relative to truck movements and movement of commodities by pipeline; yet no definition is included as to what are the components or what is to be considered in determining the compensatory or variable cost in such movements. We assume that these factors are left for determination by the Commission. To maintain effective inter-modal competition separate costing procedures should be established which reflect the inherent cost advantages of the various modes.

#### *Confidentiality and the Public Interest*

164. Section 387 C, page 55, states:

"Where information concerning the costs of a railway company or other information that is by its nature confidential is obtained from the company by the Commission in the course of any investigation under this Act, such information shall not be published or revealed in such a manner as to be available for the use of any other person."

165. This section reflects the position taken by Canadian railways that no cost data should be made available to the shipping public. Since this matter is of critical importance to the administration of the entire Act and has been raised before this Committee we feel that it warrants detailed consideration. We stress this factor because in a cost-oriented rate structure, the need for accurate cost data is critical not only to the operation of the proposed Canadian Transport Commission but for the consideration and utilization of shippers in determining their transportation needs and services. During the hearings of the Royal Commission the railways opposed all attempts by the Provinces of Manitoba and Alberta to obtain cost data which would permit critical analysis of the grain cost study submitted by the railways. The Commission ordered the railways to make full disclosure of costs relative to the export grain study and required that data be submitted regarding passenger service losses. The Committee will recall that because rail cost data was made available the alleged variable cost was reduced from \$98.1 million to \$70 million. Since any losses were to be met by the Federal Government the availability of data resulted in direct savings to the Federal Treasury of many millions of dollars.

166. It is the opinion of the Province of Manitoba that a more cost oriented rate structure requires more rather than less cost data and the publication of cost



scales and burden studies. Since the time of the Turgeon Commission report in 1951 and pursuant to the recommendations of that report, the Board of Transport Commissioners for Canada have published an annual Waybill Analysis which is a review of a 1 per cent sample of traffic handled by the Canadian railways. It has become obvious that additional data are essential if the shippers and railways are to treat future freight rate adjustments in a constructive manner.

167. In the United States the railways are required by law to provide data to the Interstate Commerce Commission which permit that body to publish reports commonly referred to as Cost Scales and Burden Studies. These reports enable interested parties to assess their contribution to fully distributed costs and to compare their position with that of other shippers. These studies are of equal value to the regulatory agency in fulfilment of its duty to ensure equitable treatment of all parties. It has become increasingly apparent that such data are long overdue in Canada.

#### *Opposition of Railways*

168. The objection of the railways has always been that such studies take considerable time and effort on the part of the railways, that they do not have the information readily available, and that the resultant studies would be of little value or that they would be of too much value to their competitors. One is unable to reconcile these statements on one hand that they would be of little value and on the other hand that they would be of immense value to their competitors.

169. These objections were discussed before the Commission. Dr. F. K. Edwards, a witness called on behalf of the Canadian Pacific and Canadian National Railways at page 12760, Volume 72, stated:

Mr. MAURO:

"Q. I noticed, Dr. Edwards, in many of these cases in which you have given evidence, you refer frequently to the Interstate Commerce Commission 'Burden Studies' and 'Cost Scales' as providing basic data to you?

A. Yes.

Q. Could you explain to the Commission what these burden studies and cost scales are?

Mr. Sinclair: I object to that question as not having any relevance to the issue being discussed in the evidence being put before the Commission.

Mr. Mauro: It has a great deal of relevance which I will explain at the time of my argument.

At the time the Commission sat in Winnipeg, it is on the record that the Province of Manitoba shall make certain recommendations on this matter. Here is a gentleman called as a witness, and part of the examination that I have put in—cross examination—has been upon the figures arrived at by the I.C.C. Burden Study.

The CHAIRMAN: Off the record this has been discussed.

Mr. MAURO: And on the record too, Mr. Chairman.

The CHAIRMAN: Yes; we might get Doctor's definition of it.

Mr. MAURO: Could you explain what the burden study is?

A. Well, I have in my hand the burden study which is entitled 'Distribution of Income Revenue Contribution by Commodity Group'.

This burden study represents a costing under the straight unadjusted rail form procedure of all carloads of traffic in United States, performed annually, on an out-of-pocket basis and also on a fully distributed cost basis, distributing the constant passenger and L.C.L. deficit per ton and ton-mile. There are two levels of costing by individual commodity movements within and between each rate territory and compared with respect of revenues; and the amount of revenue in excess of the out-of-pocket costs is the contribution to burden—the burden being those expenses which are not variable with the movement of an individual car of, we will say, cheese.

It provides an area indicating the degree to which under the rate structure and the impact of the various factors that go into rate-making—it provides a degree to which the revenues equal or exceed, or, in some cases, fail to equal, the out-of-pocket cost; or, likewise the amounts either above or below the fully distributed cost, both percentage-wise and in dollar amounts.

Q. So that the cost scales are a preliminary study and then the burden study is an analysis of the costs scales and found in that study?

A. It is an application of the cost scales to the traffic, without any adjustment—as I referred to in Rail Form A Adjusted and the other studies that couldn't be done without costing simultaneously every carload in the country.

Q. And I assume that you have found these documents of great use in your work as a consultant to both railways and shippers?

A. Well, yes; they are a guide, both used and misused.

Q. And have you any personal knowledge that such studies have injured the carriers and their operation of business—from your own personal knowledge?

A. Well, that is a difficult question to answer. There were some objections to these studies by the carriers to the effect that there would be some misapplication or misrepresentation by parties.

Q. Have you, from your knowledge, knowledge of an instance where actual injury has been suffered as a result of the work that you and Mr. Parr did in these studies?

A. Well, if they suffered, they suffered in silence insofar as I am concerned, except for these broad observations I have made."

170. Dr. Ernest Williams was also questioned concerning this matter and his evidence appears at page 16990, Volume 101:

"Q. I will go even further, Mr. Chairman, I am asking the opinion of the witness, who, I think, is well qualified to express an opinion, with respect as to whether this sort of thing should be introduced as a routine matter and made available to the Board of Transport Commissioners and their economic and accounting section.

Q. The ruling is that this Commission would not order the railways to provide the data at that time. That is finished; that issue is dead and concluded. I am now talking about a recommendation of this Commission which we are going to ask, that that kind of information become routine in Canada as it is in the United States. As to that, the Commission is eminently qualified to express an opinion.

Commissioner Mann: Dr. Williams, your general answer to such a question, if it were given, would follow, would it, along the lines of what you state under 'cost finding and federal transportation policies' at page 9 and 19?

The Witness: Very much so, I suspect, since we had quite an examination of this problem made at the time of that study... Well, it is a question which probably calls for a rather complicated answer. I think it will be obvious to the Commission that any recommendations that ran in the direction suggested, that the cost of the service has become, and must by nature of economic circumstances become, a more important test of successful rate making in the present competitive area, and will certainly suggest that some kind of cost finding procedures become essential. The one in the first instance, essential to the carriers themselves, and this is the thing which our own railroads were quite reluctant to recognize because the rail cost finding problem is certainly one of the most difficult cost finding problems that can be presented in the whole field of economics. Moreover, it was not a thing traditionally necessary nor a thing the carriers were naturally prepared to come forward with. But certainly it is becoming recognized by our railroads and increasingly, I think, by shippers who are called upon to negotiate rates with carriers, as well as to contest rates and regulatory proceedings, that cost tests have become increasingly important.

Dr. Williams defined "Cost Scales" and "Burden Studies" and discussed their value and use at page 16999:

"Now, this enables us to see in a rough way, and subject to the conditions that have to attach to the cost studies themselves, what the apparent position of various commodity groups is. It serves, certainly, a kind of screening device. It is not, at its present state, I think, sufficiently acute as an analytical tool to enable us to deal with close cases without going further, but I think it has been in our case in the regulatory side and to shippers and carriers alike a very useful approach as a rough approximation, and it cannot purport to do much more than that, unless you supplement it with some additional studies and you supplement it with some adjustments from the scale costs as shown in this publication."

171. There can be little question that from the viewpoint of usefulness, the need for such studies in Canada is acute. Additional costing information is required by the regulatory agencies, shippers and carriers.

#### *Recommendation of Royal Commission*

172. The MacPherson Royal Commission on Transportation emphasized the need for an efficient costing section attached to the regulatory agency and at page 65 (page 34) Volume 11, it stated:

"... National transportation policy should equip the Board of Transport Commissioners with the most efficient costing section that is possible,



staffed competently, and provided adequately with the necessary data from both public and private sources."

At page 176 (page 88), Volume II, the Commission considered regulatory agencies and cost data analysis and pointed out that:

"... In line with advancing techniques of cost analysis being developed in the various segments of the industry, the requisite skill must be developed to make rapid and confident verification of costs available in the regulatory process."

Reference was made to the fact that

"a whole body of cost criteria will need to be established as a framework within which branch line losses can be calculated. This function plus that of establishing cost criteria for maximum and minimum rate control as recommended in this Report, makes it essential that the Board of Transport Commissioners have adequate costs analysis facilities. Therefore, we recommend that additional staff and facilities be made available to the Board of Transport Commissioners to enable it to create an adequate costing section to meet the enlarged tasks which face the Board in the future."

173. The Royal Commission considered the adequacy of transportation statistics and had a special study carried out on its behalf. At page 170 (page 86), Volume II, the Commission recommended:

"... that the whole broad scope of public statistics on transportation now being produced by any federal agency shall be subject to scrutiny by a Transportation Statistics Committee headed by the Dominion Statistician or his appointee, with a view to developing an adequate and integrated programme of transportation statistics."

174. In case the Committee is under any misapprehension that costing is an exact science, not subject to varying opinions, we refer to the Report of the Royal Commission at page 56 (page 26), Volume I where they comment on the very large disparity of results between the railway studies and those who challenged them. These differences were attributable to ... "the general and specific lack of agreement on the assumptions necessary before any of the methods are applied". It is in this area of assumptions and methods and the use of that data that differences of opinion arise and where the decisions of the Commission will be critical.

175. The railways' position on this matter has remained constant from the earliest days of rail regulation. They have opposed for various reasons the disclosure of any rail cost data. They opposed the Waybill Analysis, they opposed the cost data relative to the grain studies, they opposed before the Royal Commission the matter of developing data regarding Cost Scales and Burden Studies. Suffice to say that the Royal Commission heard all of these arguments and concluded at page 107 (page 54) Volume II:

"Considerable concern was displayed by the railway companies who appeared before this Commission at the possibility of cost information becoming generally available. It is possible that this concern may be a basis of objection to this scheme of maximum rate control. There are two comments appropriate to allay the concern.

The first is that there is no particular commercial significance to variable cost. It differs with each type of shipment, each length of haul, each service peculiarity demanded, and furthermore, is not necessarily the basis of establishing the minimum rate. The establishment of a maximum rate and the knowledge of the percentage of the variable which will be applied to the variable will enable the captive shipper to know the variable costs of his traffic movement. But this information is of no more use to a shipper or other carrier under the new situation than is knowing the rates charged various shippers in the present system. . . .”

At page 108 (page 54):

“... Railway transportation business in Canada, so long as pockets of significant monopoly persist, is public business. Public business involves public review. Such limited review of railway costs cannot harm the conduct of the nation's transportation business so long as each mode is free to compete on the basis of its cost patterns.”

176. In light of the recommendations of the MacPherson Commission and in light of the fact that there is no prohibition now in the Railway Act relative to the discretion of the Commission in the publishing of data, we strongly urge that no direct prohibition be placed on the Commission relative to the publication of statistical information and cost data obtained by the Commission. We are satisfied that the Commission should be allowed to exercise its discretion concerning this matter. We therefore recommend that section 387 C be deleted.

## CHAPTER VIII

### GENERAL

#### *Regulatory Consistency*

177. Clause 27 (1), page 12 states:

“A company operating a commodity pipeline shall not charge any tolls except tolls specified in tariff that has been filed with the Commission and is in effect.”

Clause 33 (1), page 15, states:

“A person operating a motor vehicle undertaking to which this part applies shall not charge any tolls except tolls specified in tariff that has been filed with the Commission and is in effect.”

In the case of marine movements, the provisions of the Transport Act apply. Yet in the case of rail, Section 325 (1) states:

“Every company shall file with the Commission the freight Classification that shall govern its tariff of tolls and shall maintain such tariffs of tolls as will, in conjunction with a freight classification, provide published tolls applicable between any two points on its line in Canada.”

Railways, however, are permitted pursuant to Section 333 (33):

“A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission.”

Only the railways under the Bill are permitted to charge tolls without filing a tariff—only the railways are permitted by Section 337 (page 47) to charge common rates and agree upon rates and only the railways are apparently protected from the operations of the Combines Act.

It is our opinion that the legislation should either extend these provisions to all carriers or remove this special treatment as it applies to railways.

## CHAPTER IX

### CANADIAN TRANSPORT COMMISSION

178. Bill C-231 introduces a new federal authority referred to as the Canadian Transport Commission with power to regulate various agencies of transportation in Canada, including rail, truck, marine and commodity pipelines, and to a limited extent, air transportation. The concept of such a central authority is not new in the Canadian experience but it is worthy of comment in the context of the legislation before the Committee.

179. The Turgeon Commission, in its Report dated February 9, 1951, dealt with the problem of co-ordination and integration of all forms of transport media and their regulation by a central board. They referred to the Transport Act of 1938 entitled "An Act to establish a Board of Transport Commissioners for Canada, with authority in respect of transport by railways, ships and aircraft." The Commission commented that in 1944 Parliament changed this policy of co-ordination and provided for separate regulation of air transportation. The Commission suggested a reorganization of the control mechanism, the object being to not only deal with the correcting of abuses, but also the positive constructive task of developing adequate and efficient transportation services and of co-ordinating and harmonizing the service in the public interest.

180. At page 279 of its Report under the heading "Re-organization of control" the following appears:

"... there is no reason why parliament should not proceed as far as its authority extends toward the establishment of a national transportation system, functioning under the control and regulation of an efficient supervisory board. The several means of transportation—railways, airways, waterways, highways, and now pipelines—are distinct agencies that are inseparably inter-related. They should be so regulated as to service not only individually but collectively in meeting the country's needs."

At page 280:

"... It must be difficult, with this dispersion of control to apply to all of Canada's transportation agencies like principle of regulation for the accomplishment of a common purpose, viz., that of enabling each agency to perform its service advantageously and properly as part of national transportation structure. The tendency of a separate independent body is to formulate policy affecting transportation without regard to the relationship for the various agencies to each other. This anomaly should give way to the constitution of a Central Authority which will be able to take in hand the major task of co-ordinated control, having at its disposal all the benefit acquired from the experience of the separate bodies in recent years.



The adoption of this policy would bring together the three above named bodies, re-organized and united and devoted henceforth to the pursuit of a well planned policy for the co-ordination and regulation of transportation."

No legislative action was taken on this recommendation.

181. The Province of Manitoba discussed the problem of co-ordination of policy before the MacPherson Royal Commission. We pointed to the multiplicity of administrative agencies resulting in the fragmentation of national policy and the increased difficulties of implementing a consistent plan. It was our position that the very volume of specific problems consistently before present administrative bodies makes it impossible for them to undertake the necessary research with a view to future development. Rather they are obliged, by time and complexity, to deal with immediate regulatory problems. In short, the existing system can only deal with problems after they arise rather than consider policies which might either forestall such difficulties or deal with them before the damage is such as to demand regulatory redress.

182. This problem of co-ordination, as indicated, is not a new one and it has received study both in Canada and the United States. In the United States study entitled "National Transportation Policy" was prepared in 1949 by Charles L. Dearing and Wilfred Owen for the Brookings Institution in Washington. This study at page 384 states:

"Students of government relations to transportation have often pointed out a defect in our system of regulation, and that is the absence of any sufficient provision for planning and prevention. Regulation is essentially a means of curing evils after they arrive. It would be better, of course, if they could be prevented in advance. There is need for foresight—for consideration and comprehension of tendencies and trends and where they are leading, in order that those that are desirable may be encouraged and those that are undesirable discouraged.

Anyone who has served on the Commission knows that it is not well adapted to such work. Its functions are performed under quasijudicial procedure. Its attention is occupied with specific cases which must be decided. It has little time for thought and research on broad lines. It is difficult for Commissioners to confer with parties on controversial issues, without constant need of protecting their own position in the event that they are called upon to play the part of judges and actual litigation. Planning and prevention are not matters which can well be handled at all times or as side issues. They require single-minded, concentrated attention—"

183. Since the studies referred to were completed we have seen develop expanded highway transportation services, the opening of the St. Lawrence Seaway, and the completion of a network of pipelines across the nation. It is the opinion of the Province of Manitoba that the need for co-ordination and unification is more acute today than at any time in the past. The Commission on Canada's Economic Prospects examined this question relative to existing transportation agencies and in its Report, November, 1957, reached the following conclusion. At page 284:

"We also believe that a more unified approach should be taken by the federal government in dealing with the transportation agencies under its

control. Rather than having each transportation enterprise competing and unequally at that, for the tax payer's dollar in order to be able to conceal the high real cost of certain of the services, we believe it sounder, cheaper, and more efficient for them to provide only those services, which will stand on their own feet."

And at page 287:

"We do not think that the sort of unity of transport policy we have been talking about can be achieved by some super transport body, with rigid regulatory power even if there was no constitutional objections to such a scheme. We do, however, believe it can be more nearly obtained if the authorities concerned seek to ensure that each form of transport as nearly as possible pays its own way and is regulated in such a way as to prevent waste, duplication, and uneconomic rate making."

184. It was the opinion of the Government of Manitoba that the co-ordinating authority that we proposed should be established with regional representation, thus permitting the proper consideration of national policies as they affect the various economic regions of Canada. The major task of such an agency would be the direction of research and planning into transportation problems in conjunction with or independent of specific agencies. The authority would report annually to the Minister of Transport on the problems and policies relative to transportation in the nation. It was our opinion that such an agency should not have direct administrative responsibility. The present regulatory boards were capable of discharging the administrative responsibilities in specific fields of jurisdiction more effectively than would be possible under an overall super administrative tribunal.

185. The MacPherson Royal Commission's Report largely adopted the submission of the Province in this regard and stated: Regulatory boards and agencies cannot and should not attempt to fulfill the positive or promotional aspects of transportation policy" (page 161, page 82, Volume II.) While the provisions of Bill C-231 go beyond these recommendations to the creation of a new national transportation commission we approve, in principle, the objectives of such a commission, namely, the co-ordination of existing transportation media for a more efficient allocation of transportation resources. Our concern lies with the problems of administering the various agencies presently in operation and at the same time permitting the Commission the opportunity of research and consideration of developing problems before they reach the critical stage. If the new Canadian Transport Commission is merely to operate as a group of 17 men as opposed to the various boards as presently constituted we see little apparent benefit. If on the other hand, the procedures adopted and the authority granted will permit the examination and study of developing problems and the review of existing transportation needs in the nation real benefit can result. We trust that the prime motive of the Commission will be to create an atmosphere wherein the most efficient carriage of people and commodities will be achieved rather than a system wherein inter-modal competition will be frustrated.

186. In this regard, if the government intends to have a fully co-ordinated transportation policy under the direction of a single authority, we strongly urge that Air Canada be brought under the operations of the Aeronautics Act so that air policy which is now a vital and growing factor in the movement of both

people and commodities be properly co-ordinated. In light of the new co-ordinated approach which the legislation indicates we suggest that Section 324 be amended so as to reflect all factors in the inter-modal movement of goods. We would amend Section 324 to read as follows:

"When the toll charged by the company for the carriage, partly by rail and partly by any other mode of transport, is expressed in a single sum, the Commission, for the purpose of determining whether a toll charged is contrary in any way to the provisions of this Act, may require the company to declare forthwith to the Commission or may determine what portion of such single sum is charged by each participating mode of transport."

187. We adopt and endorse the statement of the Minister of Transport as reported in House of Commons Debates for September 1, 1966 at page 7993 where, in indicating the reason why the government was proposing such a new regulatory agency, he stated that:

"... was not that the regulatory functions would necessarily be better done by a body with separate committees, but that it was really filling a vacuum that badly needed to be filled, that it was just as important to have continuous research investigation and study, and to have it done by competent people all the time, and not just spasmodically, as it was to have good regulations and able boards to administer those regulations."

All of Which is Respectfully Submitted.

Province of Manitoba

By Their Counsel



COMPENDIUM OF  
AMENDMENTS  
PROPOSED BY THE  
PROVINCE OF MANITOBA  
TO  
BILL C-231

CLAUSE 1 PAGE 1

*Present*

1. It is hereby declared that an economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when (all modes of transport are able to compete under conditions ensuring that, except in areas where any mode of transport exercises a monopoly,)\*

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (c) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation.

CLAUSE 1 PAGE 1

*Proposed*

1. It is hereby declared that *the provision of an adequate*, economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when

- (a) regulation of all modes of transport with due regard to the national interest will not be of such a nature as to restrict the ability of any mode of transport to compete freely with any other modes of transport;
- (b) *regulation of all modes of transport will be such as to protect the users of transport services where there is no economically effective alternative mode of transport available;*

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\* Denotes that bracketed words are deleted.

- (c) each mode of transport, so far as practicable, bears a fair proportion of the real costs of the resources, facilities and services provided that mode of transport at public expense; and
- (d) each mode of transport, so far as practicable, receives compensation for the resources, facilities and services that it is required to provide as an imposed public duty;

and this Act is enacted in accordance with and for the attainment of so much of these objectives as fall within the purview of subject matters under the jurisdiction of Parliament relating to transportation.

#### SECTION 314A, PAGE 21

##### *Present*

(b) "branch line" means a line of railway in Canada of a railway company that is subject to the jurisdiction of Parliament that, (relative to a main line within the company's railway system in Canada of which it forms a part, is a subsidiary, secondary, local or feeder line of railway, and includes a part of any such subsidiary, secondary, local or feeder line of railway).\*

##### *Proposed*

(b) "branch line" means a line of railway in Canada of a railway company that is subject to the jurisdiction of Parliament *that is declared by order of the Commission to be a branch line for the purposes of this section and other relevant sections.*

#### SECTION 314B(4), PAGES 21, 22.

##### *Present*

(4) If the Commission is satisfied that the application to abandon the operation of a branch line has been filed in accordance with the rules and regulations of the Commission, the Commission shall, (after investigation, and whether or not it has afforded the company an opportunity to make further submissions, review the statement of costs and revenues referred to in subsection (3), together with all other documents, facts and figures that in its opinion are relevant, and shall) \* prepare a report setting out the amounts, if any, that in its opinion constitute the actual loss of the branch line in each of the prescribed accounting years, and the report shall be posted by the company in each station on the line in accordance with any regulation of the Commission in that behalf.

##### *Proposed*

(4) If the Commission is satisfied that the application to abandon the operation of a branch line has been filed in accordance with the rules and regulations of the Commission, the Commission shall *conduct an investigation affording the company and other interested parties the opportunity to make submissions and after such investigation including public hearings as the Commission deems necessary*, prepare a report setting out the amounts, if any, that in its opinion constitute the actual loss of the branch line in each of the prescribed accounting years, and the report shall be posted by the company in each station on the line in accordance with any regulation of the Commission in that behalf.

## SECTION 314C(1), PAGE 22

*Present*

(1) If the Commission finds that in its opinion the company, in the operation of the branch line with respect to which an application for the abandonment of its operation was made, has incurred actual loss in one or more of the prescribed accounting years including the last year thereof, the Commission shall, after such public hearings, if any, as it deems necessary or desirable and having regard to all matters that to it appear relevant, determine whether the branch line is likely to continue to (be uneconomic) \* and, if so, whether the line should be abandoned immediately or after a period allowing for adjustments in the area served by the line; but if the Commission finds that in its opinion the company has incurred no actual loss in the operation of such line in the last year of the prescribed accounting years, it shall reject the application for the abandonment of the operation of that line without prejudice to any application that may subsequently be made for abandonment of the operation of that line.

*Proposed*

(1) If the Commission finds that in its opinion the company, in the operation of the branch line with respect to which an application for the abandonment of its operation was made, has incurred actual loss in one or more of the prescribed accounting years including the last year thereof, the Commission shall, after such public hearings, if any, as it deems necessary or desirable and having regard to all matters that to it appear relevant, determine whether the branch line is likely to continue to *incur an actual loss* and, if so, whether the line should be abandoned immediately or after a period allowing for adjustments in the area served by the line; but if the Commission finds that in its opinion the company has incurred no actual loss in the operation of such line in the last year of the prescribed accounting years, it shall reject the application for the abandonment of the operation of the line without prejudice to any application that may subsequently be made for abandonment of the operation of that line.

## SECTION 314C(3), PAGE 23

*Present*

(3) In determining whether (an uneconomic) \* branch line or parts thereof should be abandoned, the Commission shall consider all matters that in its opinion are relevant to the public interest including, without limiting the generality of the foregoing,

*Proposed*

(3) In determining whether *a* branch line or parts thereof should be abandoned, the Commission shall consider all matters that in its opinion are relevant to the public interest including, without limiting the generality of the foregoing,

## SECTION 314C(4), PAGE 24

*Present*

(4) If the Commission determines that the operation of (an uneconomic) \* branch line or segments thereof should be abandoned, the Commission shall by order fix such dates for the abandonment of the operation of the line or segments



thereof as to the Commission appear to be in the public interest; but an abandonment date shall be

*Proposed*

(4) If the Commission determines that the operation of a branch line or segments thereof should be abandoned, the Commission shall by order fix such dates for the abandonment of the operation of the line or segments thereof as to the Commission appear to be in the public interest; but an abandonment date shall be

SECTION 314C(5), PAGE 24

*Present*

(5) If the Commission determines that the operation of (an uneconomic)\* branch line or segment thereof should not be abandoned, the Commission shall so order and thereafter shall reconsider the application for abandonment at intervals not exceeding five years from the date of the original application or last consideration thereof, as the case may be, for the purpose of determining whether the operation of the line should be abandoned; and

- (a) if the Commission finds that (the branch line or a segment thereof has, since the last consideration, become an economic line of railway,)\* it shall reject the application for the abandonment of the line but without prejudice to any application that may subsequently be made for the abandonment of the operation of the line; or
- (b) if the Commission finds that the branch line or a segment thereof continues to (be an uneconomic line of railway,)\* it shall determine whether the operation of the line or segment thereof should be abandoned as provided in subsection (4) or continued as provided by this subsection.

SECTION 314C(5), PAGE 24

*Proposed*

(5) If the Commission determines that the operation of a branch line or segment thereof should not be abandoned, the Commission shall so order and thereafter shall reconsider the application for abandonment at intervals not exceeding five years from the date of the original application or last consideration thereof, as the case may be, for the purpose of determining whether the operation of the line should be abandoned; and

- (a) if the Commission finds that *since the last consideration there is no longer an actual loss incurred in relation to the operation of the branch line*, it shall reject the application for the abandonment of the line but without prejudice to any application that may subsequently be made for the abandonment of the operation of the line; or
- (b) if the Commission finds that the branch line or segment thereof continues to *incur an actual loss*, it shall determine whether the operation of the line or segment thereof should be abandoned as provided in subsection (4) or continued as provided by this subsection.

## SECTION 314E, (1) (2), PAGES 26, 27

*Present*

(1) In this section,

- (a) "claim period" means, in relation to any (uneconomic)\* line of railway, the period
  - (i) beginning ninety days after the date the application to abandon the line has been filed with the Commission in accordance with the rules and regulations of the Commission, and
  - (ii) ending on
    - (A) the date fixed by the Commission, or as varied pursuant to section 53, for the abandonment of the branch line, or the last operated segment thereof, as the case may be, or
    - (B) the date upon which an order fixing a date or dates for the abandonment of the line is rescinded by the Commission under section 314C, whichever date first occurs;
- (b) "fiscal period" means the period commencing on the 1st day of April in any year and ending on the 31st day of March in the following year; (and)\*
- (c) ("uneconomic line of railway" means a branch line that has been determined to be uneconomic by the Commission under section 314C.)\*

(2) When (an uneconomic)\* line of railway, or any segment thereof, (is being operated) within a claim period, the company operating it may file a claim with the Commission for the amount of any actual loss of the company attributable to the line in any financial year of the company within the claim period, or, where only part of a financial year is within the claim period, in that part thereof within the claim period.

## SECTION 314E, (1)(2), PAGES 26, 27

*Proposed*

(1) In this section,

- (a) "claim period" means, in relation to any line of railway *which incurs an actual loss*, the period
  - (i) beginning ninety days after the date the application to abandon the line has been filed with the Commission in accordance with the rules and regulations of the Commission, and
  - (ii) ending on
    - (A) the date fixed by the Commission, or as varied pursuant to section 53, for the abandonment of the branch line, or the last operated segment thereof, as the case may be, or
    - (B) the date upon which an order fixing a date or dates for the abandonment of the line is rescinded by the Commission under section 314C, whichever date first occurs;

- (b) "fiscal period" means the period commencing on the 1st day of April in any year and ending on the 31st day of March in the following year.

(2) When a line of railway, or any segment thereof, *has incurred an actual loss* within a claim period, the company operating it may file a claim with the Commission for the amount of any actual loss of the company attributable to the line in any financial year of the company within the claim period, or, where only part of a financial year is within the claim period, in that part thereof within the claim period.

#### SECTION 314I(9), PAGE 31

##### *Present*

(9) (This section does not apply in respect of a passenger-train service accommodating principally persons who commute between points on the railway of the company providing the service.) \*

##### *Proposed*

- (9) Delete this subsection.

#### SECTION 317(1), PAGE 33

##### *Present*

(1) (Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the public interest in respect of tolls or conditions of carriage of traffic, may apply to the Commission for leave to appeal the act, omission or result and the Commission, if it is satisfied that a *prima facie* case has been made, may grant leave to appeal and may make such investigation of the act, omission or result as in its opinion may be warranted.) \*

##### *Proposed*

(1) *Where the Commission receives information by way of a complaint or otherwise containing prima facie evidence that any act or omission of one or more railway companies, or that the result of the making of rates pursuant to this Act after the commencement thereof, may prejudicially affect the business of the complainant, or the public interest, the Commission shall conduct an investigation of the act, omission, or result.*

#### SECTION 317(3), PAGE 34

##### *Present*

(3) If the Commission, after a hearing, finds that the act, omission or result in respect of which the appeal is made is prejudicial to the public interest, it may make an order requiring the company to remove the prejudicial feature in the relevant tolls or conditions of carriage of traffic or such other order as in the circumstances the Commission considers proper, or it may report thereon to the Governor in Council for any action that is considered appropriate.

##### *Proposed*

(3) If the Commission, after a hearing, finds that the act, omission or result in respect of which the appeal is made is prejudicial to the business of the



complainant, or to the public interest, it may make an order requiring the company to remove the prejudicial feature in the relevant tolls or conditions of carriage of traffic or such other order as in the circumstances the Commission considers proper, or it may report thereon to the Governor in Council for any action that is considered appropriate.

## SECTION 319(9), PAGE 35

*Present*

(9) If a railway company provides facilities for the transportation by rail of motor vehicles or trailers operated by any company under its control for the conveyance of goods for hire or reward, the railway company shall offer to all companies operating motor vehicles or trailers for the conveyance of goods for hire or reward similar facilities at the same rates and on the same terms and conditions as those applicable to the motor vehicles or trailers operated by the company under its control; and the Commission may disallow any rate or tariff not in compliance with this subsection and direct the company to substitute therefore a rate or tariff that complies with this subsection.

*Proposed*

(9) If a railway company provides facilities for the transportation by rail of motor vehicles or trailers operated by *the company* or any company under its control for the conveyance of goods for hire or reward, the railway company shall offer to all companies operating motor vehicles or trailers for the conveyance of goods for hire or reward similar facilities at the same rates and on the same terms and conditions as those applicable to the motor vehicles or trailers operated by the *company* or *any* company under its control; and the Commission may disallow any rate or tariff not in compliance with this subsection and direct the company to substitute therefore a rate or tariff that complies with this subsection.

## SECTION 328, PAGE 37

*Present*

(1) Rates on grain and flour moving from any point on any line of railway west of Fort William to Fort William or Port Arthur, over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament, shall be governed by the provisions of the agreement made pursuant to chapter 5 of the Statutes of Canada, 1897.

(2) Rates on grain and flour moving from any point on any line of railway west of Fort William to Vancouver or Prince Rupert for export over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament shall be governed by the provisions of paragraph 2 of General Order No. 448 of the Board of Railway Commissioners for Canada dated Friday the 26th day of August, 1927.

(3) Notwithstanding section 3, this section is not limited or in any manner affected by the provisions of any Act of the Parliament of Canada, or by any agreement made or entered into pursuant thereto, whether general in application or special or relating only to any specific railway or railways.

*Proposed*

(1) Rates on grain and flour moving from any point on any line of railway west of Fort William to Fort William or Port Arthur, over any line of railway

now or hereafter constructed by any company that is subject to the jurisdiction of Parliament, shall be governed by the provisions of the agreement made pursuant to chapter 5 of the Statutes of Canada, 1897.

(2) Rates on grain and flour moving from any point on any line of railway west of Fort William to Vancouver or Prince Rupert for export over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament shall be governed by the provisions of paragraph 2 of General Order No. 448 of the Board of Railway Commissioners for Canada dated Friday the 26th day of August, 1927.

(3) *Rates on grain and flour moving from any point on any line of railway west of Fort William, Port Arthur or Armstrong to Churchill for export over any line of railway now or hereafter constructed by any company that is subject to the jurisdiction of Parliament shall be governed by the rates prevailing on the twentieth day of August, 1931.*

(4) Notwithstanding section 3, this section is not limited or in any manner affected by the provisions of any Act of the Parliament of Canada, or by any agreement made or entered into pursuant thereto, whether general in application or special or relating only to any specific railway or railways.

#### SECTION 329 (1) (2), PAGES 37, 38

##### *Present*

(1) Not later than three years after the coming into force of this section, the Commission shall (inquire into the revenues and costs of railway companies subject to the jurisdiction of Parliament that are attributable to the carriage of grain and grain products at the level of rates established or maintained pursuant to Section 328 and at the level of rates referred to in subsection (2) and shall report such revenues and costs to the Governor in Council and the amount of payments necessary, in the opinion of the Commission, to assist such railway companies to meet the costs of operations in respect of the carriage of grain and grain products after the 31st day of December, 1969, at such level of rates;)\* and the Governor in Council shall take such action as he deems necessary or desirable on the basis of that report (to provide assistance to such railway companies.)\*

(2) No action shall be taken under subsection (1) in respect of any railway company that has increased the level of rates prevailing on the (31st)\* day of (December),\* 1966,

(a) on grain products other than flour moving from any point west of Fort William to Fort William or to Port Arthur over any lines of railway of the company;

(b) on (grain or)\* grain products moving for export from any point west of Fort William or Armstrong to Churchill over any line of railway of the company;

##### *Proposed*

(1) Not later than three years after the coming into force of this section, the Commission shall *determine in respect to the movement of grain and flour pursuant to section 328 a level of rates therefore consistent with section 334 and shall report to the Governor in Council*; and the Governor in Council shall take such action as he deems necessary or desirable on the basis of that report.

(2) No action shall be taken under subsection (1) in respect of any railway company that has increased the level of rates prevailing on the 1st day of January, 1966,

- (a) on grain products other than flour moving from any point west of Fort William to Fort William or to Port Arthur over any lines of railway of the company;
- (b) on grain products *other than flour* moving for export from any point west of Fort William or Armstrong to Churchill over any line of railway of the company;

#### SECTION 333(3) (4), PAGE 40

##### *Present*

(3) A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission.

(4) Where a freight tariff is filed and notice of issue is given in accordance with this Act and the regulations, orders and directions of the *Commission*, the tolls therein shall, unless and until they are disallowed by the *Commission*, be conclusively deemed to be the lawful tolls and shall take effect on the date stated in the tariff *as the date* on which it is to take effect, and *the tariff supersedes* any preceding tariff, or any portion thereof, in so far as it reduces or advances the tolls therein; and the company shall thereafter, until such tariff expires, or is disallowed by the *Commission*, or is superseded by a new tariff, charge the tolls as specified therein.

##### *Proposed*

(3) A freight tariff that reduces any toll previously authorized to be charged under this Act may be acted upon and put into operation immediately on or after the issue of the tariff and before it is filed with the Commission, *but the said tariff must be filed within the time limit prescribed by the Commission.*

(4) Where a freight tariff is filed and notice of issue is given in accordance with this Act and the regulations, orders and directions of the Commission, the tolls therein shall, unless and until they are *suspended or* disallowed by the Commission, be conclusively deemed to be the lawful tolls and shall take effect on the date stated in the tariff as the date on which it is to take effect, and the tariff supersedes any preceding tariff, or any portion thereof, in so far as it reduces or advances the tolls therein; and the company shall thereafter, until such tariff expires, or is *suspended or* disallowed by the Commission, or is superseded by a new tariff, charge the tolls as specified therein.

(5) *Where a freight tariff has been disallowed by the Commission, in accordance with subsection (4), the shipper shall be entitled to the difference between the charges actually paid and those deemed to be lawful and in addition liquidated damages at a rate of 10 per cent of the lawful rate on all goods shipped.*

#### SECTION 336 (2) (3) (4) (5), PAGES 42, 43

##### *Present*

(2) After being informed by the Commission of the probable range within which a fixed rate for the carriage of the goods would fall, the shipper may apply



to the Commission to fix a rate for the carriage of the goods, and the Commission may after such investigation as it deems necessary fix a rate equal to the variable cost of the carriage of the goods and an amount equal to (one hundred and fifty per cent of the variable cost, as the fixed rate applicable to the carriage of the goods) in respect of which the application was made (hereinafter in this section referred to as the "goods concerned").\*

(3) In determining the variable cost of the carriage of goods for the purposes of this section, the Commission shall

- (a) have regard to all items and factors prescribed by regulations of the Commission as being relevant in the determination of variable costs;
  - (b) compute the costs of capital in all cases by using the costs of capital approved by the Commission as proper for the Canadian Pacific Railway Company;
  - (c) calculate the cost of carriage of the goods concerned on the basis of carloads of thirty thousand pounds in the standard railway equipment for such goods; and
  - (d) if the goods concerned may move between points in Canada by alternative routes of two or more railway companies, compute the variable cost on the basis of the costs of the lowest cost rail route.
- (4) ...
- (5) ...
- (a) ...
  - (b) (i)
    - (ii) except in any case coming under subparagraph (iii), if the carload weight of a single shipment of the goods concerned is (fifty)\* thousand pounds or more, at a rate to be determined by (deducting from the fixed rate an amount equal to one half the amount of the reduction in the variable cost of the shipment of the goods concerned below the amount of the variable cost with reference to which the fixed rate was established, but)\* rates need be determined under this subparagraph only as required and then for minimum carload weights based on units of (twenty)\* thousand added to thirty thousand and a rate for a carload weight in excess of (fifty)\* thousand pounds and between any two minimum carload weights so established shall be the rate for the lower of such minimum carload weights; or

SECTION 336 (2) (3) (4) (5), PAGES 42, 43

*Proposed*

(2) *A shipper of goods in respect of which the rates in effect on the 1st day of January, 1965, were class and commodity rates subject to the Freight Rates Reduction Act, shall be deemed to have no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or combination of rail carriers.*

(3) *After being informed by the Commission on the probable range within which a fixed rate for the carriage of the goods would fall, the shipper may apply to the Commission to fix a rate for the carriage of the goods and the Commission may after such investigation as it deems necessary fix a rate equal*

to the variable cost of the carriage of the goods and an amount equal to the percentage difference that total permissive earnings are to freight variable cost plus an amount computed as being the cost of capital applicable to the carriage of such goods, in respect of which the application was made (hereinafter in this section referred to as the "goods concerned").

(4) In determining the variable cost of the carriage of goods for the purposes of this section, the Commission shall have regard to all items and factors prescribed by regulations of the Commission as being relevant in the determination of variable costs but excluding therefrom any costs associated with the cost of capital.

(5) The Commission shall compute the costs of capital in all cases by using the costs of capital approved by the Commission as proper for the Canadian Pacific Railway Company.

(6) The Commission shall calculate the cost of carriage of the goods concerned on the basis of carloads of thirty thousand pounds in the standard railway equipment for such goods.

(7) The Commission shall, if the goods concerned may move between points in Canada by alternative routes of two or more railway companies, compute the variable cost on the basis of the costs of the lowest cost rail route.

(8) ... (present (4))

(9) ... (present (5))

(a) ...

(b) (i)

(ii) except in any case coming under subparagraph (iii), if the carload weight of a single shipment of the goods concerned is forty thousand pounds or more, at a rate to be determined by adding to the variable cost of such carload shipment an amount equal to the percentage difference that total permissive earnings are to total variable cost, and in addition thereto one half of the difference between such variable cost and the variable cost of a shipment of thirty thousand pounds of such goods as determined under subsection (3). Rates need be determined under this subparagraph only as required and then for minimum carload weights based on units of ten thousand added to thirty thousand and a rate of carload weight in excess of forty thousand pounds and between any two minimum carload weights so established shall be the rate for the lower of such minimum carload weights, or

#### SECTION 387 (7), PAGE 53

*Present*

(7) The Commission shall review and revise as necessary the uniform classification of accounts, at intervals not longer than every two years, to ensure that railway companies maintain separate accounting

(a) of the assets and earnings of their rail and non-rail enterprises; and

(b) of their operations by modes of transport.

*Proposed*

(7) The Commission shall review and revise as necessary the uniform classification of accounts, at intervals not longer than every two years, to ensure that railway companies maintain separate accounting

- (a) of the assets and earnings of their rail and non-rail enterprises;
- (b) of their operations by modes of transport; and
- (c) of operations of passenger trains or services, including commutation trains and services and express and mail services.

## SECTION 387C, PAGE 55

*Present*

(Where information concerning the costs of a railway company or other information that is by its nature confidential is obtained from the company by the Commission in the course of any investigation under this Act, such information shall not be published or revealed in such a manner as to be available for the use of any other person.)\*

*Proposed*

Delete this section.

## FOOTNOTE REFERENCE SHEET

Footnote Number	Page Number
<sup>1</sup> Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book I, page 48 .....	5
<sup>2</sup> Professor W. L. Morton, "Railway and Railway Rates in National Policy in Canada, 1849-1959", Submission on Behalf of Government of Manitoba, Daily Transcript, MacPherson Royal Commission on Transportation, Vol. 30, February 9, 1960, pp. 4416-7 .....	6
<sup>3</sup> Canada Year Book, 1959, page 826 .....	7
<sup>4</sup> Ibid, pages 824-825 .....	7
<sup>5</sup> Professor W. L. Morton, Daily Transcript, MacPherson Royal Commission on Transportation, Vol. 30, 4418 .....	7
<sup>6</sup> House of Commons Debates, 1880, I, p. 5 .....	9
<sup>7</sup> Ibid, p. 486 .....	9
<sup>8</sup> 44 Victoria, Chap. 1, Section 7 .....	9
<sup>9</sup> W. L. Morton, Daily Transcript, Vol. 30, February 9, 1960, p. 4428	11
<sup>10</sup> Report of the Royal Commission on Dominion-Provincial Relations, 1940, Book 1, p. 68 .....	11
<sup>11</sup> Canada, House of Commons Debates, Vol. XLV, June 18, 1897, pp. 4558-9 .....	12
<sup>12</sup> Canada, House of Commons Debates, Vol. LXI, July 30, 1903, pp. 7659-60 .....	12
<sup>13</sup> Ibid, p. 7685 .....	13
<sup>14</sup> Statutes of Canada 1903, 3 Edward VII, Chap. 71, Sec. 42 ....	13
<sup>15</sup> W. L. Morton, Daily Transcript, Vol. 30, February 9, 1960, pp. 4435-6. ....	14



Footnote Number	Page Number
<sup>16</sup> W. L. Morton, Daily Transcript, Vol. 30, February 9, 1960, pp. 4435-6 .....	15
<sup>17</sup> Ibid, pp. 4436-7 .....	15
<sup>18</sup> 15-16 George V, Chap. 52 .....	16
<sup>19</sup> House of Commons Debates, 1925, V.P. 4307 .....	16
<sup>20</sup> Canada Year Book, 1965, p. 777 .....	18
<sup>21</sup> Official Report, House of Commons Debates, March 15, 1956 ..	18
<sup>22</sup> W. L. Morton, Daily Transcript, Vol. 30, February 9, 1960, p. 4445	20
<sup>23</sup> Daily Transcript, Vol. 29, February 8, 1960, pp. 4210-11 .....	38
<sup>24</sup> House of Commons Debates, Official Report, Vol. 103, No. 49, 2nd Session, March 24, 1959, pp. 2207-8 .....	39

## APPENDIX A-33

## THE CANADIAN POOL CAR OPERATORS ASSOCIATION INC.

3715 St. Antoine Street,  
Montreal 30,  
NOVEMBER 9th, 1966

Mr. Joseph Macaluso, M.P.,  
Chairman,  
Standing Committee on Transport & Communications,  
House of Commons,  
Ottawa,  
Ontario.

Dear Sir,

The Canadian Trucking Association submitted a Brief to the Standing Committee on Transport and Communications, of which Pages 39 to 41 dealt with Regulation of "Piggy-back," Other Container Operations and *Forwarders*.

Enclosed is a copy of the contents of a telegram which was sent to your attention on November 8th, 1966, expressing the views of our Association concerning the recommendations made in this Brief by the Canadian Trucking Association.

We are sure you will agree that only the Canadian Pool Car Operators Association Inc. can speak on behalf of the rail freight forwarders, and we hope that our telegram will receive due consideration.

Respectfully yours,

CANADIAN POOL CAR OPERATORS ASSOCIATION INC.  
D. L. Trudeau.  
Secretary.

Copy of telegram sent on November 8th, 1966 to

Mr. Joseph Macaluso, M.P.,  
Chairman,  
Standing Committee on Transport & Communications,  
House of Commons,  
Ottawa, Ont.

The Canadian Pool Car Operators Association is an association of the nine major Pool Car Operators in Canada offering freight transportation services from coast to coast. We are concerned to learn that the Canadian Trucking Association have placed before you suggestions to make Freight Forwarders subject to the sample regulations to the Commission as are Motor Carriers. Any such action is most undesirable as the operating of Pool Car Services cannot be placed in the same category as Truck Transport, either from an operating or commercial standpoint. If desired we will be pleased to place our case before you, and meanwhile protest any action taken without prior consultation with our Association.

(Signed) CANADIAN POOL CAR OPERATORS ASSOCIATION INC.  
D. L. Trudeau  
Secretary.

**APPENDIX A-34**  
**HUDSON BAY ROUTE**  
**ASSOCIATION**

SASKATOON, SASK.  
CANADA

43, McAskill Crescent  
NOVEMBER 7th 1966

Secretary of The House  
Standing Committee on  
Transport and Communications,  
Ottawa, Canada.

Dear Sir:—

It has been brought to our attention that the wording of part of Bill C-231,—(The National Transportation Act), does not meet with our approval.

We refer particularly to Page 37,—Clause 50,—Section 328,—sub-section 2. It refers to grain and flour moving west of Fort William to "Vancouver or Prince Rupert". This apparently does not take into account that we have our own western seaport of Churchill Manitoba. We certainly intend to keep "moving" grain and flour via this port, and feel that any Transportation Act, should recognize our own western seaport.

We would suggest that if the name Churchill is objectionable to be in the Act, why not change the wording to "any Seaport in Western Canada"? It is just possible that other seaports may be developed at our west coast, or in Hudson Bay.

Hoping you will bring this matter to the attention of the proper authorities, and hoping they can see their way clear to comply with our request, and with kindest regards, I remain,

Yours sincerely

Jas. F. Gray  
Sec-Treas



## APPENDIX A-35

P.O. Box 370, Station "A"  
Toronto, Ontario.

NOVEMBER 11th, 1966.

Mr. Joseph Macaluso, Chairman,  
The Standing Committee on  
Transportation and Communications,  
House of Commons,  
Ottawa, Ontario.

Dear Sir:

Attached is a brief submitted to your Committee relating to Bill C 231 as it affects Section 328 and 329 of the Railway Act. Sufficient copies for all your Committee Members have been forwarded separately to Mr. Robert Virr, the Committee Secretary.

The brief explains the severe competitive conditions which exist in world Flour markets; it describes the support received by Flour exporters in other countries; it points out the absolute necessity, if our Flour export markets are to be maintained at all, of a freeze on export rail rates and charges at present levels vis-à-vis Wheat; and it makes specific recommendations for changes in the proposed Bill C 231.

We understand from Mr. Virr that our brief will be tabled and considered by the Committee. Should you or Members of your Committee find it possible to meet with me and representatives of our Export Committee, we would be most happy to appear at any time convenient to you.

Yours sincerely,

CANADIAN NATIONAL MILLERS ASSOCIATION  
P. W. Strickland,  
Chairman.

SUBMISSION OF THE CANADIAN NATIONAL MILLERS ASSOCIATION  
TO THE HOUSE OF COMMONS STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS  
WITH RESPECT TO  
BILL C-231

The Canadian National Millers Association represents and speaks for the entire Canadian milling industry.

Our industry, as large exporters of flour, wish to bring to your attention the fact that any advances in export rail rates, terminal or accessorial charges, could seriously affect not only the milling industry but other segments of the Canadian economy, not the least of which is the wheat producer. We propose to give you the facts and figures to illustrate the extreme competitive picture in world markets, and to set forth some of the disadvantages which presently exist for Canadian export flour.

We will also respectfully submit our suggestions as to how the Transportation Bill may be amended to give the necessary help and protection required to maintain our position in world flour markets.

1. *Export Wheat versus Export Flour:*

It is most essential that the competitive position of Canadian Flour as opposed to Wheat suffer no further deterioration. The present position is outlined in our exhibit number 1. Here are shown the *disadvantages* which now exist for flour as compared with wheat at the Canadian seaboard. The comparisons given follow a normal export delivery programme:—

- (a) Western mills exporting through Vancouver.
- (b) Bay port mills exporting through Montreal.
- (c) Western, Bay port and Montreal mills exporting through Halifax or Saint John.

Under (d) we have shown the advantage that American flour mills shipping via the Gulf of Mexico ports have over United States export wheat through those same ports.

The disadvantage of Canadian export flour widened considerably when the Seaway was built and water rates for wheat movement declined drastically. For a period the Canadian Wheat Board allowed an export freight adjustment on flour at one time amounting to as much as  $16\frac{1}{8}$  cents per bushel. This was cancelled on June 24th, 1964 at which time the adjustment was  $6\text{--}7\frac{7}{8}$  cents per bushel. Since then there has been no assistance of any kind to the Canadian export miller.

Exhibit 1 shows only our position at seaboard and does not reflect the wide differences existing between charter ocean rates on Bulk Wheat and ocean liner rates on sacked flour.

We therefore feel very strongly that the continuation of the Canadian export flour business requires a freeze in present export rail rates and charges to Montreal and Atlantic ports from all inland mills.

## 2. *Export Flour Subsidies:*

Government—subsidized competition from the United States, Australia, France, Germany and Italy has robbed Canada of markets which were traditionally Canadian, and developed through knowledge, quality and service gained over many years.

For example, in 1957 the average disadvantage per 100 lbs. of Canadian Flour vis-à-vis 100 lbs. of United States Hard Winter Flour at seaboard was 35 cents. The average disadvantage for the year 1966 is \$1.08.

European Common Market suppliers, such as Germany, France, and Italy, in addition to receiving a subsidy on flour exports, also are the recipients of a "destination" subsidy up to \$12.00 per ton. This actually is a subsidization of ocean transportation charges.

The Canadian miller is completely shut-out from participation in commercial sales to Ceylon and U.A.R. and other Middle East countries—all large importers of flour. Recent sales by Germany and France to the U.A.R. indicated they were made at \$50.00 per ton lower than the lowest price at which Canadian mills could sell. This despite the fact that the price of German and French wheat is much higher than Canadian wheat of higher quality.

The significant result of subsidized competition has been that exports of flour to commercial markets of the world have been declining steadily, and we are now shipping less than half the volume formerly shipped to commercial export channels in the early 1950's.

Attached is exhibit 2 showing flour exports by major flour exporting countries for the period 1950/1 to 1962/3, as published by the International Wheat Council.

This heavy Government-subsidized competition has seriously affected the production of flour by one of Canada's oldest and most important industries—flour milling, which has proved to be a bulwark to the Canadian economy in times of peace and war. Other economic factors adversely affected by declining flour exports have been employment, transportation, *utilization of port facilities*, manufacture of bags etc.

## 3. *Principal markets:*

The markets about which we are most concerned at the present time are the two largest.

Over the last 60 years our best market for Canadian Wheat Flour has been the United Kingdom. In the year ending July 31st, 1954, our shipments were 7,060,500 100 lb. bags. In the year ending July 31st 1966 the figures were 3,858,248. This decline has been substantially due to the competitive price position with British mills. In order to preserve this important business at even its present level there can be *no* increase whatsoever in the cost of moving flour to seaboard.

Since 1963 Canada and Canada's flour mills have enjoyed a large business with the U.S.S.R. much of it destined for Cuba. We feel strongly that any increase in rail rates to or terminal charges at Eastern Canadian ports could seriously affect this most important business.



All will agree with two basic concepts:—

- (a) It is in Canada's national interest to promote secondary industry.
- (b) It is in Canada's national interest to export flour as a stimulant to the world marketing of Canadian wheat. It is an axiom that the best salesman for Canadian wheat is high quality Canadian flour. It forces the millers in foreign countries to meet the quality and standards so set by themselves utilizing maximum quantities of Canadian grown wheat.

We sincerely trust that the information given above will show the clear necessity of a "freeze" on export flour rates and charges similar to that provided for export wheat, thus continuing the existing relationship between export wheat and flour.

We further draw to your attention the precedent of "unjust discrimination" established during the hearing of the Canadian National Millers Association case in 1958, before the Board of Transport Commissioners, and recorded in B.O.95910, particularly in the "finding" as stated on page 377, our exhibit No. 3.

Believing they are consistent with the intent of the National Transportation Policy, we respectfully propose the following changes and additions to section 50 of Bill C-231 as it affects sections 328 and 329 of the Railway Act, which section 50 places a "freeze" on rates for the carriage of grain for export but does not provide similarly for flour.

*Clause 50, Section 329, Subsection (2)*

We recommend it read as follows:

"No action shall be taken under subsection (1) in respect of any railway company that has increased the level of rates prevailing on the 31st day of December 1966,

- (a)
- (b)
- (c)
- (d)
- (e)

Or, has increased the *accessorial charges* prevailing on the 31st day of December 1966, on flour moving for export,

- (a) from any point west of Fort William to Fort William, Port Arthur, or Armstrong, over any line of railway of the company.
- (b) from any point west of Fort William to Vancouver, Prince Rupert, or other Canadian Ports on the Pacific Coast, over any line of railway of the company.
- (c) from any point west of Fort William or Armstrong to Churchill over any line of railway of the company."

These changes necessary to prevent the further widening of the spread between grain and flour transportation and related costs to the ports of exit for export. Otherwise accessorial charges continue to increase and multiply as demonstrated by exhibit 1.

*Clause 50, Section 329-A, Subsection (1), Part (b)*

We recommend it read as follows:

"Eastern Rates" means the freight rates applying on the 30th day of November 1960 to the movement of grain in bulk for export from any inland point to an Eastern port, or the freight rate and accessorial charges applying on the 31st day of December 1966 to the movement of flour for export from any inland point to an Eastern Port.

*Clause 50, Section 329-A, Subsection (1), Part (c)*

Add Fort William, Port Arthur, and Armstrong to the list of points in definition of "inland point".

*Clause 50, Section 329-A, Subsection (1), Part (d)*

In addition to the description given for "grain", add the following description for "flour":

"Flour means any commodity to which, under the freight tariffs of the company in effect on the 31st day of December 1966, the rates known as flour rates applied on that date".

*Clause 50, Section 329-A, Subsection (2)*

Change to read:

"For the purpose of encouraging the continued use of the Eastern Ports for the export of grain in bulk and flour, and to insure against unfair disadvantage in the exporting of flour, rates for grain moving in bulk for export to any Eastern Port from any inland point over any line of railway, subject to the jurisdiction of Parliament, shall be maintained at the level of rates applying on the 30th day of November, 1960, to the movement of such grain to Eastern ports, and rates and accessorial charges for flour for export to any Eastern Port from any inland point over any line of a railway company subject to the jurisdiction of Parliament, shall be maintained at the level of rates and accessorial charges applying on the 31st day of December 1966 to the movement of such flour to Eastern ports.

*Clause 50, Section 329-A, Subsection (3)*

Change to read:

"The Commission shall from time to time determine, in respect of the movement of grain in bulk and flour, for export by railway to an Eastern port from an inland point, a level of rates for grain and a level of rates and accessorial charges for flour therefore consistent with section 334 and shall cause such rates to be published in the *Canada Gazette*.

*Clause 50, Section 329-A, Subsection (4)*

Wherever "grain in bulk" or "grain" appears, add "and flour".

Wherever "rates" appears, add "and accessorial charges".

EXHIBIT 1  
NO. 3—NORTHERN SPRING

	VANCOUVER			MONTREAL			HALIFAX			12.50 Protein No. 1 Hard Winter GULF U.S.A.		
	1	2	3	4	5	6	7	8	9	10	11	12
Vancouver Wheat		Calgary Mill to Vanc	Saskatoon Mill to Vanc	Montreal Wheat	Montreal Mill to Mtl	Pt. Colb. to Mtl	Halifax Wheat	Sask. or Man. Mill to Halifax	Pt. Colb. Mill to Hlf	Montreal Mill to Hlf	American Mill To Gulf	Gulf Wheat
	2.105	2.055	2.055	2.20	2.055	2.055	2.22625	2.055	2.055	2.055	1.99	1.99
Fobbing.....	.04	FWm.	FWm.	.0046	.04371	.04371	.01766	FWm.	FWm.	FWm.	Gulf	Gulf
Port Charges.....		.0275	.0275					.0275			.04	
Milling Diversion Premium.....		.03	.03		.11168	.05972		.03	.05972	.03		
Stop-Off.....					.005	.005		.04969	.005	.005		
Lake Freight and Charges.....												
Shovelling.....												
Elevation to Montreal Mill and					.0145							
Top Wharfrage.....												
Elevation and Car Loading at Bay												
Port.....												
Converted to Cdn. Funds—7½%.....										.02		
Transportation from Mill or Wheat basing point to port.....		.165	.185 (Incl. Tmls.)		.06	.249		.324	.243	.2250	2.03 2.182	2.055 2.178
Top Wharfrage.....												
N.H.B. Switching not Absorbed.....												
Box Car Unloading cost Montreal.....												
Less U.S. Subsidy in Canadian												
Currency.....												
Per Bushel Cost Port of Expt.....	2.145	2.2775	2.2975	2.2046	2.29589	2.42093	2.24391	2.4425	2.41243	2.44040	*.357	** 215
Per Bushel disadvantage for Flour vs											1.825	1.963
Wheat.....		— .1325	— .1525		— .0912	— .2163		— .1986	— .1685	— .1964		+
*Per 100# Flour disadvantage.....		— .3047	— .3507		— .2997	— .4974		— .4567	— .3875	— .4517	(*)33½¢	**20¢ US

\*Utilizing Normal Yield 2.3 bushels Per 100 lbs.  
Note: U.S.A. Flour shows advantage of 13.8¢ per bushel or 32¢ per 100 lbs. Flour while Canadian Flour consistently shows a disadvantage compared to export Wheat.  
November 2nd, 1966



## EXHIBIT 2

## FLOUR EXPORTS OF MAJOR FLOUR EXPORTING COUNTRIES

1950/51 to 1962/63

July/June Year	Thousand Metric Tons: Wheat Equivalent								
	Australia	Canada	France	F.R. Germany	Italy	United States			Total
						Com- mercial	*Special	Others	
1950-51 <sup>1</sup> .....	967	1,489	200	25	20	1,495	—	204	4,400
1951-52 <sup>1</sup> .....	1,022	1,414	280	42	3	1,363	—	360	4,484
1952-53 <sup>1</sup> .....	1,126	1,554	333	91	2	1,357	—	197	4,660
1953-54.....	959	1,295	390	66	6	994	—	482	4,192
1954-55.....	826	1,149	587	48	5	1,270	22	415	4,322
1955-56.....	840	1,016	711	357	33	1,238	132	308	4,635
1956-57.....	945	963	274	327	228	1,471	528	205	4,941
1957-58.....	606	1,073	580	640	322	1,434	705	353	5,718
1958-59.....	563	1,005	452	624	222	1,185	1,007	695	5,753
1959-60.....	681	996	454	769	180	849	1,619	316	5,864
1960-61.....	835	980	365	762	64	805	1,908	319	6,038
1961-62.....	736	865	497	1,091	122	739	2,248	669	6,967
1962-63.....	660	772	555	605	168	625	2,156	582	6,123

SOURCE: World Wheat Statistics, World Grain Trade Statistics and, for U.S. special trade, Economic Research Service, U.S.D.A.

<sup>1</sup> These figures are provisional because no final figures by destination are available for these years.

\* Special includes large sales under Title I of PL-480—Considered by U.S. mills as Commercial Business.

## EXHIBIT 3

Heard at Ottawa, April 9 and 10, 1958.

Before:

C. D. SHEPARD, Q.C., *Chief Commissioner.*

F. M. MACPHERSON, *Commissioner.*

L. J. KNOWLES, *Commissioner.*

Appearances:

LOVELL CARROLL, Q.C., for Canadian National Millers Association and Ontario Flour Millers Association.

J. W. STRICKLAND, for Ontario Flour Millers Association.

W. J. SMALLACOMBE, for Maple Leaf Milling Company Limited, and Grain & Grain Products branch of the Toronto Board of Trade.

E. J. WOLFF, for Canadian National Millers Export Committee.

W. MACDOUGALL, for Robin Hood Flour Mills Limited.

H. A. MANN, for Maritimes Transportation Commission.

A. R. TRELOAR, for Canadian Manufacturers Association.

I. C. CAMPBELL and GUY R. BRON, for Quebec Asbestos Mining Association.

R. E. GRACEY and E. CHEESEMAN, for Canadian Industrial Traffic League.

E. J. ALTON and W. C. PERRON, for National Harbours Board.

C. LAFERLE, for Canadian Importers and Traders Association.

T. H. WEATHERDON, for Canadian Exporters Association.

L. D. M. SPENCE, Q.C., for Canadian Pacific Railway Company.

J. W. G. MACDOUGALL, Q.C., for Canadian National Railways.

CUTHBERT A. SCOTT, Q.C., for All interested Class I United States railroads.

## JUDGMENT

## BY THE BOARD:

The matter at issue here concerns a proposed flat increase of 6 cents per 100 pounds in line haul rates applicable with some exceptions, on export and import freight traffic between points in Canada and Canadian ports such as is set out in item 220-A of Master Tariff X-212 filed with us by various agents under their respective C.T.C. numbers.

The said increase is in addition to all other increases made in line haul rates by the said Master Tariff. It was initiated by United States railroads and is now applicable on traffic through United States ports and also on United States traffic moving through Canadian ports.

Tariffs containing the increase here involved were filed with the Board on statutory notice to become effective February 15, 1958, but upon protests from the flour milling industry and others we issued Order No. 93541 on January 31, 1958 suspending the coming in force of the 6 cents increase insofar as it was proposed to establish the same to or from Canadian ports from and to Canadian points.

The protests which impelled us to suspend the said charge alleged unreasonableness and unjust discrimination would prevail and, in particular, that while the increase was proposed to be made applicable to export flour it was not proposed to apply the same on bulk wheat.

The matter was set down for public hearing and was heard on the 9th and 10th day of April, 1958 at which time over 250 pages of testimony and argument were taken and 29 exhibits were introduced in evidence. Not all of those who sought suspension appeared at the hearing and not all of those who did appear gave evidence.

As briefly as appears possible, the following summarizes the protestants' submissions and those of the railways:

*Protestants*

The Maritimes Transportation Commission expressed fear that the proposed increase would decrease exports; that a flat rate increase on all goods may be impossible for some to assume; that maintaining port parity is important but not essential if the traffic does not move through United States ports. It was suggested that the development of the St. Lawrence Seaway would create new competition; that highway transportation already takes place to United States ports; and that the Canadian Lines are not entirely without voice in the determination of the level of the export and import rates.

The Canadian Industrial Traffic League spoke in general terms of the detrimental effect the increase would have on Canada's foreign trade which accounted for 22 per cent of the national income compared with 5 per cent in the United States; that the initiative in respect of the proposed charge was taken by the United States lines and while it might be adaptable to their conditions the same conditions did not prevail in Canada. Broad reference was made to alleged differences in labour costs involved in the handling of traffic at Canadian vs. United States ports, the impact of competitive services; and it was asserted that as export and import rates normally include the terminal services, increased costs had been already compensated for by the various ExParte increases previously secured.

The Canadian Manufacturers' Association appeared to be mainly concerned that the Board might make a decision in advance of a finding by the Interstate Commerce Commission, before which similar proceedings were being taken.

The Quebec Asbestos Mining Association representatives stressed that overseas buyers may seek sources of supply elsewhere than in Canada, although admitting that Canadian asbestos was in good demand. It was stated that exports of asbestos were lower in the first two months of 1958 than for a comparable period the year previous. They contended that it was unjust to apply the same measure of increase to asbestos as to manufactured goods.

The flour milling industry as represented by the Canadian National Millers Association and the Ontario Flour Millers Association submitted substantial testimony in opposition to the increase through senior officers of Ogilvie Flour Mills, Quaker Oats Company, Maple Leaf Milling Company, Robin Hood Flour Mills, and the Almonte Flour Mills.

The general tenor of the evidence given by these witnesses was that in the United Kingdom market, which is the largest market for Canadian flour, competition was being now experienced of such severity as to necessitate the elimination of normal profits, with business being taken at substantial losses or at no more than recovery of out-of-pocket expense. It was stated that this situation was of deep concern to the industry and that it was so selling flour in an attempt to retain contacts with customers in the hope that more normal conditions would eventually materialize. They unanimously stated that to apply a further charge of 6 cents per 100 pounds would seriously jeopardize their ability to continue the present practice. The witness for Almonte Flour Mills flatly stated that even an increase of one cent per 100 pounds would result in the cessation of movement to the United Kingdom from his mill, and that many other small mills would be similarly situated.

A series of exhibits were filed illustrating, *inter alia*, the exports of flour and wheat from Canada over a period of years which showed that for the crop year 1956-57 wheat exports had declined 15.4 per cent from the previous year and flour 13.8 per cent. A comparison was shown for seven months of the crop years 1956-57 vs. 1957-58 indicating that while the latter had increased 8.4 per cent over the previous year insofar as wheat is concerned, the increase in flour was only 2.4 per cent. In Exhibit 4, entitled "World Flour Trade Increased in 1957" the exports of wheat flour by principal countries show the following changes in 1957 over 1956:

United States .....	35.9%	increase
Canada .....	11.3%	decrease
Australia .....	3.0%	decrease
Other countries .....	7.5%	increase
World total .....	10.5%	increase

In Exhibit 5 it was shown that export of wheat flour to the Caribbean Area from Canada had, generally, substantially declined in 1957 from the year previous whereas exports from the United States had substantially increased.

In Exhibit 9 a comparison by years extending from 1950-51 to 1956-57 shows a continuing decline, year by year, in Canada's exports of wheat flour to the United Kingdom, with the last named year resulting in exports of 4,955,801 cwts. compared with 5,501,599 cwts. in 1955-56 and 10,199,270 cwts. in 1950-51.



A like condition is shown to have prevailed in respect of such exports to all Commonwealth countries and also to other foreign countries.

In Exhibit 10 which shows similar data for seven months 1957-58 vs. a like period of 1956-57, in improvement is noted in that for the 1957-58 period to United Kingdom some 500,000 cwts. more than in the previous year were exported and a like situation appears to prevail in respect of total exports.

It was stated that the major factor detrimental to Canadian flour exports was the subsidization policy of the United States Government which resulted, as shown in Exhibit 7, in an advantage to United States suppliers in the United Kingdom market of 49 cents per cwt.

It was also stressed that the proposal to apply the increase to flour and to not apply it to exports of bulk wheat created hardship upon the Canadian millers who were in intense competition with British millers who produced flour from Canadian and other wheat. It was contended that such a practice would tend to decrease also the movement of Canadian wheat in that if Canadian flour could no longer be marketed in the United Kingdom, where its quality is held in high regard, the tendency would be for British millers to seek inferior grades of wheat at lower prices with consequent decline of wheat exports from Canada. The assertion was that Canadian flour is a strong factor in creating demand for Canadian wheat on account of its superior qualities.

As to the ocean transportation to the United Kingdom, exhibit 6 shows that the rate on flour is presently on a differential of 15 cents over the liner minimum grain rate. Exhibit 11 compares the rail rate spread on grain products, Ex-Lake, milled at lakeports with the Ex-lake rates on bulk wheat from such ports. The purport of this exhibit is that in 1943 the grain products rate to Halifax and Saint John was 6.33 cents per 100 lbs., higher than the bulk grain rate, whereas at February 15, 1958, the spread had increased to 14.75 cents. With the addition of a further increase of 6 cents per 100 lbs. the spread would be 20.75 cents. (While the exhibit does not so show, the same rates and spread apply to Portland, Maine, and Boston, Mass.).

### *Railways*

The principal evidence of the railways was that the proposed application of item 220-A was to maintain the continuity of rate parity between Canadian and United States ports; that such parity was of vital importance to Canadian ports, railways and the shippers; and that its retention provided the only justification for the lower rates than on domestic traffic and for the longer hauls involved. Considerable discussion took place with this witness as to the character of the export rates with the witness asserting that they were not competitive rates but were rates designed to develop movement of traffic to world competitive markets.

Questioning of the witness developed that the Canadian lines had not taken any steps to ascertain why a difference in treatment was being proposed re flour vs. grain; that it had been assumed the difference in the method of handling was the basic reason and that the Canadian lines' approach to the matter was simply upon the premise of preserving the port parity rate relationship.

It was stated that the railways had occasion, at times, to depart from the practice of port rate parity when competitive forces compelled an adjustment of the rate; and that if the preservation of port parity should result in the cessation

of movement of any particular commodity, the Canadian railways would reassess the situation in an attempt to maintain the flow of traffic.

### *Discussion and Conclusions*

While the review of the evidence and submissions as above stated does not completely set out all that was adduced, we have given careful study to the whole record.

The position taken in argument by Counsel for the flour milling industry was chiefly that the marketing situation for Canadian flour was in a greatly depressed condition and that the proposed addition of 6 cents by item 220-A is unreasonable; that whatever increase in costs has occurred has been compensated for by the various increases which have been applied; and that the present rates have not been shown to be non-compensatory.

He stressed that a main consideration involved in this case is the increase proposed on flour and not on wheat. While not invoking unjust discrimination he contended that "nothing prevents the Board from applying that principle if, from the facts of the case, it finds that it is applicable."

He also contended that the adherence to the principle of port parity clashed with the vital interests of the railways and the shippers, which the railways might well give further consideration to even before we render Judgment; and that if the traffic does not flow, parity is meaningless.

Counsel for the railways, on the other hand, challenge our powers to order any change in the level of the export and import rates as long as they are lower than the domestic level and provide service over longer hauls than those involved in the competitive port movements.

The general tenor of the argument by railway Counsel is that the applicants' case is built upon allegations of unreasonableness and not on unjust discrimination; that the Board has never assumed it had power to fix rates for export or import traffic within the concept of the present rate structures for such traffic; and that the Board has never exercised its powers in an endeavour to overcome economic problems faced by various industries or to overcome geographical disadvantages.

The points mentioned are well taken and we see no grounds upon which we can substitute ourselves for railway management in determining the extent to which assistance may be granted to industries so situated.

On numerous occasions we have acted upon the basic premise that export and import rates are in reality competitive rates to meet conditions of competition of various types. The Railway Act permits the railways to establish competitive rates in their discretion, and the only power we have exercised in respect thereto is to deal with matter of (a) unjustifiably low rates; or (b) unjust discrimination.

In the instant case the only condition we can see that calls for determination on our part is the proposed difference in treatment of the flour and bulk grain traffic.

There is undoubtedly a delicate balance between the marketing of grain and flour and we have given particular consideration to what has been adduced in this respect. That there is presently, and existent for many years past, a lower basis of export rail rates to seaboard on grain than on flour, although on domestic traffic they are normally carried at the same level of rates, and it must be

presumed that such difference now existing has not prevented the flour millers from marketing their product despite such difference.

We are of the opinion that with such difference as now obtains, and in the light of no evidence to the contrary, the respective export rates on grain and flour are just and reasonable as at present in effect. To arbitrarily apply a further charge to flour and not to grain in our opinion has serious elements of unjust discrimination against the export of Canadian flour and is not justified even on the grounds of maintaining port parity. The nature of the parity in this respect is indicative that to the United States ports where rates to Canadian ports are equal, the Canadian lines are not wholly without influence as to the measure thereof. The port of Portland is largely under the dominance of the Canadian National Railways and Bstotn, if not dominated by the Canadian Pacific Railway, at least that line plays considerable part in influencing the level of competing rates through it.

*Finding*

We find that unjust discrimination will prevail against the export of Canadian flour through Canadian ports if item 220-A of the tariff, or as the provisions thereof may be otherwise applied is made applicable as now proposed, so long as bulk grain is not similarly treated. The said provisions are hereby disallowed without prejudice to the right of the Canadian railways to establish non-discriminatory provisions.

Other than the foregoing the objections made are not sustained, and are dismissed. Order No. 93541 will be revoked and an Order in the terms of the finding herein will go.

C. D. SHEPARD

F. M. MacPHERSON

L. J. KNOWLES

October 3, 1958.



## APPENDIX A-36

## THE PORT OF HALIFAX COMMISSION

5162 Duke Street

Halifax, Nova Scotia  
Canada

Mr. Joseph Macaluso, M.P.,  
Chairman,  
Standing Committee on Communications and Transport,  
House of Commons,  
Ottawa.

Dear Mr. Chairman:

This Commission is a commission of the Council of the City of Halifax, N.S., charged with promoting the business and welfare generally of the Port of Halifax.

On March 23, 1965, the Commission made verbal and written submissions on its objections to Bill C-120 to the Parliamentary Committee on Railways, Canals and Telegraph Lines. Your Committee is now considering the revised Bill C-120, now Bill C-231. Insofar as the parts to which this Commission objected of Bill C-120 are concerned, the only substantial difference in Bill C-231 is that from the date on which it becomes operative the non-competitive class and commodity rates from, to and within the Atlantic Region will be frozen at their present level to permit time for the completion of the Atlantic Provinces Transportation study, for its evaluation and for any implementation that may be decided. (As you know, amongst other things, this study is to evaluate the effect of Bill C-231 on the Atlantic Region). As this study will not be completed until January, 1967, we shall confine ourselves, against every eventuality, to making this written submission which we hope your Committee may wish to record in its minutes.

## SYNOPSIS OF OBJECTIONS

## A.

1. There is in existence a continuing National Policy for transportation in the Atlantic Region. The policy says that merchants and manufacturers in that region are to be provided rail facilities within and westward of the region at rates which will de-emphasize their distance disadvantage and hence allow them to participate in the commercial life of Canada.

2. The means presently employed to provide that de-emphasis is a fixed percentage reduction provided by the Maritimes Freight Rate Act (MFRA) within and westward of the region, of the rates which in theory would be charged anywhere else in Canada on the relative line haul costs. In other words, the general level of rates in the Atlantic Region is lower than the level in other parts of Canada. Notwithstanding this, the de-emphasis is today inadequate to allow Atlantic region merchants and manufacturers to sell on the other markets of Canada.

### 3. Important points in relation to the above and Bill C-231 .

- (i) It follows that the fixed percentage de-emphasis will be even more inadequate to achieve the intent of the policy when the railways increase these rates to attain, or maintain, their compensatory level
- (ii) The MFRA reductions apply only to the rails hence:
  - Denying the region the benefit of trucking competition and hence:
  - (a) Any rail rate increases will fall on the much larger proportion of rail traffic that the region has with respect to other regions.
  - (b) Lacking competition in the region the railways will be free to increase rates there and conversely more reluctant to increase them in other regions where competition is stronger and more pervasive

The above factors will tend very strongly to increase the general level of rates in the Atlantic Region as compared with other regions of Canada and will therefore make it still more difficult for Atlantic merchants and manufacturers to sell on other markets.

- (c) Inland rates to and from ports are the influential factor in capturing import-export cargo. The lack of motor truck competition at Halifax and Saint John has left these ports with higher inland rates than, for example, Montreal. As regards U.S. east coast ports Halifax and Saint John are still competitive by virtue of the port parity structure. However, both Halifax and Saint John are much further from points of origin/destination of cargo than New York. Hence Bill C-231 may increase their inland rates making them non-competitive also in that sector, with losses of large blocks of general cargo by one or both ports to U.S. east coast ports, Inland rates at Halifax and Saint John do not qualify for MFRA reductions, nor are they protected by the 2-year rate "freeze".
- (iii) Maritimes ports serve approximately 2.5 million tons of general cargo per year. This is equal to the activities of many merchants and manufacturers. Whether they will continue to serve that volume will depend very largely on their inland rates, chiefly rail rates. The position of these ports as regards contribution to the economy and distance from other markets is no different from Atlantic merchants and manufacturers, yet they are excluded from the MFRA and from 2-year rate freeze. At the same time increases in their inland rates engendered by Bill C-231 will cause a loss to the economy as large as from any other source or combination of sources.

It is the principal objection of this Commission to the Bill that the railways will, in practice; be the arbiters as to the variable cost of any movement and hence the arbiters as to when a rate is, or is not compensatory.

- (iv) Several pieces of legislation are cited to show that until now there has been a national policy:
    - (a) to route Canadian cargo via Canadian ports.
    - (b) that the through rate via Canadian railways from and to Canadian ports must not be more than the through rate via U.S.A. ports.
- and this was clearly to protect the business of Canadian ports.

- (v) It is foreseen that Canadian National, which has already indicated the possibility, may wish to divert Canadian cargoes from Halifax and Saint John to Portland, Me. This would be contrary to the national interest and very particularly to the Atlantic region interest.
- (vi) It is pointed out that the St. Lawrence Seaway is being permitted to operate on a non-compensatory basis. The argument is that to increase tolls would damage the economies of the contiguous provinces. The railway is just as important to the economy of the Atlantic region and it is exactly our argument that an increase in the level of its rail rates, as compared with that in other provinces, would greatly damage the Atlantic economy.

If such an argument is sufficient to relieve the Seaway of increased tolls, we hope the same argument will be sufficient to relieve the Atlantic region of the increase in the level of its rail rates inevitable when Bill C-231 passes into law.

#### B. Clause 44

The repeal of the old anti-discriminatory rules and the substitution of a new rule based on the public interest does not seem to give sufficient protection to small Atlantic manufacturers, or shippers who will inevitably, under the new rule, get higher rates than those the railway will offer to the many larger manufacturers in Ontario and Quebec.

#### C. Clause 53

Furthermore the maximum rates proposed appear to us to be outrageously high and we have no difficulty in stating that, all things considered, we do not consider the Bill provides any satisfactory protection to captive Atlantic shippers, particularly those with the higher weights of car loadings.

### DETAILED OBJECTIONS BY THE PORT OF HALIFAX COMMISSION TO BILL C-231

While the primary interest of this Commission is the business and welfare of the Port of Halifax, this is, in turn dependent on the economic health and industrial development of the port's hinterland, part of which is the Atlantic Region. This brief therefore, will consider the broader interest of the four Atlantic Provinces insofar as Bill C-231 may, in the opinion of this Commission, effect their present level of economic well-being and future economic development.

1. The establishment of a National Policy for transportation in the Maritimes (now Atlantic Region)

The detailed story of the Intercolonial Railway, of the Duncan Royal Commission on Maritimes Claims (1926) of the Maritimes Freight Rate Act of 1927 (MFRA) of the establishment of the Maritimes Transportation Commission, of the revision of the MFRA in 1957 show, we believe, two things conclusively:

- (i) that from 1867 to the present day, so far as Maritimers were and are concerned, the cost of transportation between the Maritimes and other parts of Canada was and is the central element, overriding all



other factors, in its importance to their economic well-being and progress.

- (ii) that successive federal governments, of whatever political party, have, over the years, by introducing the legislation cited, shown themselves to be substantially in agreement with this thesis, that the cost of transportation is of overriding economic importance to the region. The current Atlantic Region Transportation Study, sponsored by the federal government and the 2-year freeze in the Atlantic Region, incorporated into Bill C-231, are further evidence of this fact.

## 2. Distinction between National Transportation Policy and National Policy

We believe that the MacPherson Commission was the first to distinguish between a National Transportation Policy to achieve efficiency and economy of national transportation resources and a National Policy which uses transportation, among other things, to achieve economic development and improved social welfare in particular regions.

It is the opinion of this Commission that the acts of the Government of Canada, cited above, from the completion of the Intercolonial Railway to the Maritimes Freight Rate Act, as it stands today, and the study and rail rate "freeze" mentioned, taken together, reflect a policy which meets the MacPherson Commission's definition of a National Policy (for the Atlantic Region) in the field of transportation.

There is therefore, and there has been since Confederation (indeed, a very little study of the Confederation Agreements shows that without it the Maritimes would not have federated) a National Policy the objective of which was and is to provide Maritimes manufacturers and merchants with railway facilities at rates which would permit them (despite high line-haul costs) to sell on the wider market of Canada, rather than on the restricted one of the Maritimes only. In the Maritimes, since the passage of the MFRA, if there was still a relationship between railway costs and railway rates, the rates which were actually charged were reduced by a *fixed percentage of the rates which would have been charged on such costs anywhere in Canada outside of "select territory"* (area beneficiary of MFRA—defined in the Act). The enormous distance disadvantage of the Maritimes was thus de-emphasized so that the region could participate on less disadvantageous terms in the commercial life of Canada; and this was and is the National Policy which was, under the Terms of Union, extended to include Newfoundland.

Nor has the federal government of the day shown by word or action any intention of changing this policy. On the contrary the provisions of the MFRA are specifically declared valid in Bill C-231 (Clause 49). The study and the 2-year "freeze" are conclusive evidence that the policy remains, and will remain the same.

## 3. Important points in relation to the above and Bill C-231

To assess the effect of Bill C-231 on the Atlantic Region, the following must however be noted:

A. Bill C-231, Clause 53, new section 334: "... all freight rates shall be compensatory..."

- (i) The measure of the "de-emphasis", that is, the amount of the rail rate reduction today (and for some time heretofore) provided by the

MFRA has been, and is inadequate to allow Atlantic region manufacturers and merchants generally to sell competitively on other markets in Canada. Thus while the policy remains, the means adopted are more or less ineffective. (For proof of this statement see submissions of Maritimes Transportation Commission to Royal Commission on Transportation (MacPherson Commission—September, 1960) and to Standing Committee on Railways, Canals and Telegraph lines at hearings on Bill C-120 (March 30, 1965).

The significance of this in relation to Bill C-231 is that if the MFRA reductions are insufficient to protect Maritimes, or Atlantic Region commerce with other parts of Canada *now*, how much more inadequate will they be to protect that commerce when the railways increase their rates, which inevitably they will do, either now or in the future, to make them, or to keep them compensatory in compliance with Bill C-231. Thus it is idle to hope that the MFRA (as it stands now) will provide the Atlantic Region with satisfactory rate reductions when the Bill becomes law.

- (ii) The MFRA reductions apply only to rail rates, thus placing the railways in an advantageous position not dictated by efficiency, denying the region the benefit, to some very large extent of rail/truck competition which would tend to hold rates down, limiting shippers choice of mode and keeping at least some rates higher than they would be under effective competition. This dominant position which the railways hold in the field of transportation in the Atlantic region has several further adverse consequences in relation to Bill C-231:
  - (a) The mere fact that a greater proportion of Atlantic Region tonnage is carried by the rails than in other regions of Canada, means that any increases in *rail* rates resulting from Bill C-231 will hit the region harder than they will such other regions.
  - (b) The relative lack of motor truck competition to the railways (the MacPherson Commission referred to the region as "*an area of significant railway monopoly*") means that the railways will feel free to apply and will apply rate increases in the Atlantic Region and, conversely, will be reluctant to apply them in areas where they have effective competition, for fear of losing their traffic there. As the MFRA is ineffective, this will again increase the transportation cost-disadvantage that Atlantic Region goods suffer from in markets in other parts of Canada. This has, indeed, been the case with the several horizontal rail rate increases which took place between 1945 and 1958.

*To make the point here:* due to these circumstances, the Atlantic Region level of freight rates, which is *not now* sufficiently low (relative to the rates available in other regions) to permit Atlantic products to compete in other markets of Canada (as the National Policy would require) will become relatively higher and accordingly, still less respondent to that National Policy. This is to say that the effects of Bill C-231 on the Atlantic Region will be diametrically opposed to the intent and objectives of that

National Policy. This could have disastrous consequences for such little industry the region has and would be an added deterrent against new industry locating there.

- (c) The MFRA reductions do not apply on import and export rates from and to the ports of Halifax and Saint John, N.B. Ocean rates to all northeastern ports on the continent being the same, the inland rate (export or import rates) becomes the influential factor in "capturing" cargo. All export and import rail rates to northeastern ports are on a parity or differential basis (i.e. irrespective of distance, the export rate for any commodity from a common point to any two ports, is either the same or within a few cents/100 lbs of being the same). However when motor truck competition became a factor, the railways were forced to publish motor truck competitive rates. Such rates to and from, for example, the Port of Montreal, were and are very much under the inland rates to and from Halifax which due to very much less truck competition were and are still largely the export/import rates. This has left the Port of Halifax in a much worsened competitive position vis-à-vis Montreal and other ports where motor truck competition has forced inland rates down. However, Halifax is still competitive in this respect with other ports which still operate largely on export/import rates, such as Saint John and New York. However, should Halifax's export and import rates be increased by virtue of Bill C-231, then of course Halifax will become uncompetitive with respect also to these ports. As already mentioned the export/import rates at Halifax and Saint John are not subject to the MFRA reductions, nor do they come under the 2-year rate freeze, so that this sort of thing could take place after passage of the Bill with very adverse effects on the traffic of the Port of Halifax and hence on the economy of the port region; and Saint John is in exactly the same situation vis-à-vis New York.

As already mentioned, on the export/import rate parity and differential structure, the inland rates to and from these three ports are either the same or about the same, but the inland distances to points of origin and destination of cargo are very different, Halifax having the greatest distances and New York very much the lesser distances. If the rates on which Halifax import/export cargo moves are to be based on cost of movement instead of on the port parity structure, on which New York rates are based, enough has been said to show that sooner or later the Halifax and maybe the Saint John rates will be greater than the New York rates by an amount related to their greater distances from and to points of origin/destination. Inevitably then, these ports will lose cargo to New York, or to some other U.S.A. port, all of which are on the import-export parity and differential structure.

- (iii) It is perhaps worth pointing out here that the services which these two Maritimes ports offer to approximately 2.5 million tons per



annum of general cargo are worth economically to the region as much as the combined activities of many manufacturers and merchants. (Between them they employ something of the order of from 4000 to 5000 people, at peak periods, and from 1000 to 2000 at others).

Whether these ports will continue to serve 2.5 million tons of general cargo depends on the level of inland freight rates they can offer as compared to competitor ports nearer to the central markets of Canada and of the U.S. Midwest. The position of these Atlantic ports in therefore, as regards contribution to the economy of the region, and as regards distance from other markets, no different from the position of merchants and manufacturers in the region, yet their rail rates have been excluded from the MFRA reductions which would certainly help their competitive position should the provision of Bill C-231 cause these rates to be increased, or should further decreases take place, at ports in other parts of the continent due to increased motor truck competition, or for any other reason.

The potential economic loss to the Atlantic Region at these two ports, engendered by Bill C-231, is probably as large as that from any other single source or combination of sources, yet these all-important import-export rates neither benefit from the MRFA nor do they come under the 2-year rate "freeze".

*To make the point here:* at, for instance, St. Lawrence ports, trucking competition has reduced inland rates to the point where, generally, Atlantic ports (which lack this degree of trucking competition) are no longer competitive. Atlantic ports are however still generally competitive, due to the port parity structure, with each other and with U.S. east coast ports, whose inland rates are on the same basis. Port parity rates are not much influenced by distance, but are related by ports rather to de-emphasize distance. They may or may not be compensatory and at Halifax (being the greatest distance from origin/destination) they are *least likely* to be compensatory. If therefore they are not, Bill C-231 will oblige the railways to make them so, and at that point Halifax may, almost certainly will, become uncompetitive with Saint John and New York; and Saint John is in exactly the same position vis-a-vis New York. As a result thereof, of Bill C-231 increasing inland rates at the ports of Halifax and Saint John, these ports may lose anything between 30 per cent and 50 per cent of their annual general cargo volume, and this would be an extremely grave blow to the economy of the Atlantic region. In practice the Bill hands the railways a water-tight case for increasing rates. They only have to show that a rate is non-compensatory, and they are conveniently "obliged" *by law* to raise it. Whether a rate is compensatory or not depends largely on the variable cost of the movement, and it is perhaps our principal objection to the Bill that, in practice, the railways will be the sole arbiters of this calculation. For we do not believe that any body now in existence is capable of arguing successfully with the railways on this matter; nor that any future body will be able to recruit sufficient *objective* and capable staff within the next few years to argue successfully with the railways on the enormous number of variable costs that should

be questioned; nor can we conceive, even if the staff problem were solved, that such body will obtain the factual information necessary to examine adequately the railways claims as to variable costs. It seems too, that the Canadian Transport Commission will be chiefly interested in ensuring variable costs are *high enough*, while the need to keep them low enough so that Canadian ports are competitive with U.S. ports has been largely overlooked. Thus, insofar as the rates in which we are interested go, the railways will be arbiters of the situation.

- (iv) Again in relation to export-import rates at the ports of Halifax and Saint John, N.B., and in relation to inland rates via competing U.S.A. ports, there is a constantly recurring theme which is found in practically all Canadian railway legislation. As an example of this theme we quote from Chapter 20, Acts of 1914, re. the Canadian Northern Railway System, as follows:

"...the through rate on export traffic from the point of origin to the point of destination shall not be greater via Canadian ports than it would be via United States ports...and that the Canadian Northern and the several constituent and subsidiary companies shall not in any manner within its power or control directly or indirectly advise or encourage the transportation of any such freight by routes other than those provided."

Section 14 (2) Canadian National—Canadian Pacific Act, 1 Ed. VIII, Chapter 25 provided:

"The Board of Directors shall so direct, provide and procure that all freight destined for export by sea which is consigned within Canada for carriage to National Railways either at point of origin or between that and the sea shall, unless it has been by its shippers specifically routed otherwise, be exported through Canadian sea-ports."

This theme will be found to recur in—

Section 42 of the Agreement with the Grand Trunk Pacific Railway Company (1903)

Section 13, Chapter 6, Acts of 1911, re the Canadian Northern Ontario Railway Co.

—and probably in other legislation.

How much, if any, of the above legislation will remain in force after the passage of Bill C-231 we are unable to say; if any of it does, then clearly it is going to be difficult, if not impossible, to reconcile it with Bill C-231 which in essence cuts right across such policy with its "rates shall be compensatory" clause (irrespective as to whether they are higher or lower than via U.S.A. ports). If all the above legislation has been quietly repealed by Bill C-231, then it would appear that the Government has reversed a long-established policy, which cannot but have the gravest of adverse consequences for Canadian ports, particularly for Halifax and Saint John, which are perhaps the most vulnerable to U.S.A. competing ports.

- (v) In relation to the above point (iv) we seem to recall Canadian National Railways stating in evidence before the MacPherson Com-

mission that it could save several million dollars per annum if it were able to route Canadian traffic presently routed (presumably by force of the above legislation) via Halifax and Saint John, through Portland, Me. If, of course, the above legislation is to be repealed by Bill C-231 there will then be nothing to prevent Canadian National from doing this; and should shippers continue to specify Canadian Atlantic ports, nothing to stop CN sending a salesman round to offer them a slightly lower rate to Poland.

Supposing also the rate for a particular commodity to Halifax was compensatory, but only minimally so and CN could make more money, or better use of its equipment by getting rid of that traffic. It only has to recalculate the variable cost to Halifax and Saint John on a slightly different, but still perfectly possible set of assumptions, to be able to brand that rate non-compensatory, publish a higher "compensatory" rate and the traffic will take another route, to Portland, or New York. Or the railway might simply delay traffic to Halifax and/or Saint John; and without the anti-discriminatory reasons, such as lack of cars, to such an extent that the shippers became disgusted and diverted that specific commodity to another route. Anyhow the CNR is rid of it, but so unfortunately will be Halifax and/or Saint John; and without the anti-discriminatory rules, both as to rates and as to method of handling traffic, distribution of cars, etc., now contained in the Railway Act at Section 317 and subsection (3) of section 319, both of which repealed by Bill C-231, and without the legislation mentioned at (iv) above there will be no remedy for such action on the part of the railway which this Commission, in the event such diversion of traffic did take place, would have no hesitation in qualifying as contrary to the national interest.

- (vi) It is not possible to close our comments on the clause which proposes to make all freight rates compensatory without some reference to the St. Lawrence Seaway. This great undertaking was built entirely with government money on the understanding it would be self-supporting, that is, compensatory. It is not and never has been in a compensatory position. Its official accumulated deficit being in the region of \$42 million and its real accumulated deficit being about \$76 million, and hence it could be argued it is operating illegally by not increasing its tolls, as provided in relevant legislation. Its tolls have not been increased very largely because of practically unanimous opinion (which may or may not be objective) that such increases would harm the economies of the provinces contiguous to it. (See *Hansard* of May 26, 1966—practically every speaker expressed this opinion).

This is *exactly* what we have been saying, but with respect to compensatory rail rates in the Atlantic Provinces—that they will damage enormously our economy; and there can be no doubt that the railways are, economically speaking, at least as important to the Atlantic provinces as the Seaway is to the central provinces.

If such an argument is sufficient to relieve the Seaway of increased tolls, we feel it should also be sufficient to relieve the Atlantic



provinces of the increased level of rail rates, as compared with other parts of Canada, they will have sooner or later following the passage of Bill C-231

#### B. Clause 44

Clause 44 ("all tolls shall always under similar circumstances be charged equally to all persons") is also repealed and an anti-discriminatory rule based on the public interest is substituted. The new rule however, appears to prohibit only "any unfair disadvantage beyond that which may be deemed to be inherent in the location, scale of operations or volume and type of traffic."

This of course will leave the railways free to grant a rate of variable cost plus, say, only 1 cent, to a large shipper in Ontario, and to set the rate for the same commodity from the Atlantic region, for a small shipper at variable cost + 149 per cent. As few shippers in the Atlantic region can hope to achieve the scale or volume of operations of many shippers in Ontario and Quebec, this clause would appear to discriminate rather heavily against the Atlantic region.

This Commission is not against broadening somewhat the area within which the railways may discriminate along the usual commercial lines, but feels that this should be regulated in such a way that the discrimination does not clearly operate against any one particular region of Canada.

#### C. Clause 53, new section 336

Clause 53, new section 336, purports to protect the shipper who is captive to the rails from exploitation. Firstly, the classes of shipper which can benefit from this section appear to be very severely limited, and we do not see why this should be. The MacPherson Commission recommended that *any* shipper who was dissatisfied with his rate could apply for a maximum rate to be set and this, it seems to us would be the fairest and simplest method of dealing with the question: who can apply? For it may not be possible to foresee all the circumstances in which a shipper could become captive to the rails. The MacPherson Commission also found that the Atlantic Region is an area of substantial railway monopoly. This means there *must* be somewhere in the region a fair number of shippers who for one reason or another are captive to the rails and this would coincide with our own observations. Yet, the writer was present a few days ago and heard both Mr. Donald Gordon and the Minister of Transport tell your Committee that they did not know where a "captive" shipper (in terms of the Bill) could be found. This leads us to suspect that many captive shippers are not going to qualify under the Bill for maximum rate treatment. If this is so it is highly unsatisfactory. The Bill purports to free the railways from the burdensome restrictions under which they have so far had to operate and to allow them virtually complete freedom to make rates within a minimum, to protect their competitors and *a maximum to protect the captive shipper* and this should be done. If it is going to be difficult, in the terms of the Bill, to find a captive shipper in an area of significant railway monopoly, then something is wrong with the terms of the Bill.

Further we find it hard to believe that a maximum of variable cost + 150 per cent provides much in the way of protection to a captive shipper. We are not railway experts but we are reasonably sure that such a rate would be very much higher than any rate now applicable in the Atlantic Region or from or to the Atlantic Region. We understand further that a rate for a 30,000 lbs. carload,

based on variable cost + 150 per cent, will produce variable cost + in excess of 600 per cent at a 140,000 lbs. carload. In other words the railways could charge more than variable cost + something over 600 per cent before a shipper of carloads of 140,000 lbs. could get any benefit from the maximum rate control provision. This strikes us as outrageous and means that, anyhow for shippers in that class, there is in fact no reasonable maximum.

J. Wm. E. Mingo, Chairman

## APPENDIX A-37

## CANADIAN PULP AND PAPER ASSOCIATION

Brief

on

Bill C-231

## INTRODUCTION

This brief is being submitted on behalf of the members of the Canadian Pulp and Paper Association. Members of this Association account for more than 95% of all the pulp and paper produced in Canada.

In general, this industry supports the principles embodied in Bill C-231, but does have strong misgivings with regard to some of the proposed amendments to the Railway Act.

For your assistance in studying this brief, each of its parts have been numbered and each Part deals with a specific clause (or a specific part of a clause) in the Bill. The number of the clause dealt with appears after the Part number.

Part I *Clause 45:*

The first point of concern is that the Bill, in Clause 45 (1), proposes to eliminate from the Railway Act that Section (Section 319, Subsection 3) which prohibits the giving or making of undue or unreasonable advantage or preference, and which generally prohibits unjust discrimination.

PART II *Clause 44:*

(a) It is recognized that Clause 44 of Bill C-231, in proposing a new Section 317 to the Railway Act, does attempt to provide recourse against the possibility of unjust discrimination or the giving of unreasonable advantage.

(b) However, we feel that the present wording of the proposed Section 317 could be interpreted in such a way as to deny the right of appeal to many with a valid and legitimate grievance. We request, therefore, that Subsections (1) and (3) of the proposed Section 317 be amended to read as follows:

"317. (1) Any person, if he has reason to believe that any act or omission of one or more railway companies, or that the result of making of rates pursuant to this Act after the commencement thereof, may prejudicially affect, *or create unfair disadvantage to that person or to the public interest in respect of tolls or conditions of carriage of traffic*, may apply to the Commission for leave to appeal the act, omission or result and the Commission, if it is satisfied that a *prima facie* case has been made, SHALL [may] grant leave to appeal and SHALL [may] make such investigation of the act, omission or result as in its opinion may be warranted."

"(3) If the Commission, after a hearing, finds that the act, omission or result in respect of which the appeal is made is prejudicial to *that person or to the public interest*, it may make an order requiring the company to remove the prejudicial feature in the relevant tolls or conditions of carriage of traffic or such other order as in the circumstances the Commission considers proper, or it may report thereon to the Governor in Council for any action that is considered appropriate."



Our italics indicate additional wording:

Our words in square brackets indicate words changed, as shown:

(c) In explanation, it is felt that the reference to "public interest" in the wording of Section 317, as presently contained in Bill C-231, is insufficiently precise, in itself, and could result, as previously mentioned, in denial of the right of appeal to many parties with valid grounds for appeal.

(d) Additionally, it is felt that the word "may", occurring in both the ninth and tenth lines of Subsection (1) of the proposed Section 317, should be changed to "shall" in order that, if a prima facie case for appeal is made, the proposed Commission would, in fact, grant leave to appeal and would conduct the necessary investigation.

#### PART III *Clause 52:—Re: Proposed Section 333 (2)*

(a) The next point of concern to this industry relates to Clause 52 of Bill C-231, which changes Subsection (2) of Section 333 of the Railway Act. In this Subsection, it is proposed that railway companies shall file and publish tariffs advancing a toll (or tolls) at least ten days before the effective date of that increase. At present, the Railway Act specifies that the period shall be at least thirty days.

(b) In practice, rate increases are put into effect as quickly as possible, and reduction of the period from "at least thirty days" to "at least ten days" will mean that the shipping public will have twenty days less to adjust their operations, completely, to any rate increase.

(c) As far as this industry is concerned, ten days would, in most cases, not allow sufficient time for markets to adjust to the rate increase.

(d) We request, therefore, that the effective date for an advance in tolls be unchanged; that is, that it remain "at least thirty days" after the railway company has filed and published the relevant tariff.

#### PART IV *Clause 52:—Re: Proposed Section 333, Additional Subsections*

(a) In addition to believing that the time between filing and publishing a tariff and the effective date of that tariff, in the case of a rate increase, should remain at thirty days, we also believe legislation should ensure that parties affected by any change in a tariff (either directly or indirectly) should have the opportunity of being made aware of all details of such change. At present (and in the proposed Section 333), there is no such requirement. All that is required is that tariffs be filed and published.

(b) For example, under the present and proposed legislation, a shipper may not hear about a change in rate until it is in effect. If such change concerns a rate he pays himself, he obviously should be made aware of it before it comes into effect. If the change affects a rate being paid by a shipper (or shippers) other than himself, he may still have a vital interest in it, for marketing or other reasons.

(c) We request, therefore, that two new Subsections be added to proposed Section 333, to read as follows:

"(5) Railway companies and/or their associations shall arrange to make available to any interested party, on a subscription basis, all their tariffs and supplements thereto, and shall ensure that subscribers are

given the notice prescribed in subsections(2) and (3) of this section for any changes in the tariffs to which they subscribe, and all details of such changes.”

“(6) Railway companies, jointly or singly, shall arrange to have published, at regular intervals, a consolidated statement listing the details of all changes which result in increases or reductions in charges made or to be made in their tariffs, or in the tariffs of their associations, and this published statement shall be made available to all interested parties, on a subscription basis.”

PART V *Clause 53:—Re: Proposed Section 336 (1)*

(a) Our next area of concern relates to Clause 53 of Bill C-231, insofar as it deals with Subsection (1) of the proposed Section 336 of the Railway Act. This Subsection attempts to define a shipper who is “captive” to a rail carrier (or carriers), and lays down the procedure which such a shipper should follow if he is dissatisfied with the rate applicable for the carriage of his goods.

(b) We believe that the present wording used to define a captive shipper in this proposed Subsection does not, in fact, succeed in defining such a shipper. We request, therefore, that the wording of the first few lines of this Subsection be amended to read as follows:

“336. (1) A shipper of goods for which in respect of those goods there is no *adequate* alternative, [effective] and competitive service by an *independent* common carrier other than a rail carrier—”

Our italics indicate additional words:

Our words in square brackets indicate deletion:

(c) In explanation, we believe that there are a great number of shippers who are captive to rail carriers, in that they cannot ship a significant portion of their output by any means other than by rail. For example, although the mills of many of our members are served by more than one medium of transportation (rail plus truck and/or ship), most of them have to rely upon the railways for the bulk of their transportation services. In most cases, the other forms of transportation simply do not have the capacity to meet the requirements. Thus, if rail service to such a mill were to discontinue, that mill would soon be forced to cease production. We believe that no greater degree of “captivity” to a carrier can be demonstrated than by such a situation—a situation which is common to many shippers.

(d) With reference to the suggested addition of the words “an independent” before the words “common carrier”, we believe it is important that this qualification be made since a common carrier (such as a trucking company) which is a subsidiary of a rail carrier may not, in fact, be in a position to provide a truly competitive service.

PART VI *Clause 53:—Re: Proposed Section 336 (2)*

(a) Subsection (2) of the proposed Section 336 deals with the method by which the proposed Commission would fix a rate, on being asked to do so by a captive shipper.

(b) We believe that the proposed formula, by which the rate would be fixed at a level equal to the variable cost of the carriage of goods plus an amount equal to one hundred and fifty percent of the variable cost, could result in an excessively high rate.

(c) We believe it is undesirable that, in such a case, the proposed Commission be compelled, by legislation, to fix a rate at any specific level. We believe the Commission should have freedom to fix such a rate at the level it deems appropriate, and that the particular level selected should depend upon the particular circumstances of the case.

(d) We request, therefore, that Subsection (2) of the proposed Section 336 be amended to read as follows:

"336. (2) After being informed by the Commission of the probable range within which a fixed rate for the carriage of the goods would fall, the shipper may apply to the Commission to fix a rate for the carriage of the goods, and the Commission may after such investigation as it deems necessary fix a rate *at a level it considers appropriate to the circumstances*, [equal to the variable cost of the carriage of the goods and an amount equal to one hundred and fifty percent of the variable cost], as the fixed rate applicable to the carriage of the goods in respect of which the application was made (hereinafter in this section referred to as the "goods concerned")."

Our italics indicate additional wording:

Our words in square brackets indicate deletion:

(e) Changes to other subsections of the proposed Section 336 would have to be made, to reflect the change we propose for Subsection(2).

#### PART VII SUMMARY

With to the proposed amendments to the Railway Act, it is requested:

(a) that the wording in proposed Section 317 be amended to ensure that no party with a valid grievance be denied the right of appeal to the proposed Commission. (See Part II, A to C, of this brief.)

(b) that the wording in proposed Section 317 be amended to ensure that, where a *prima facie* case for appeal has been made, the proposed Commission be required to grant leave for such appeal, and be required to conduct the necessary investigation. (See Part II D of this brief.)

(c) that the present legislation which requires railways to file and publish a tariff increasing a rate at least thirty days before the effective date of that increase remain unchanged. (See Part III, A to D, of this brief.)

(d) that two new Subsections be added to the proposed Section 333, requiring:

- (i) railway companies and/or their associations to make available to interested parties, on a subscription basis, all their tariffs and supplements, and to ensure that such subscribers are given the prescribed notice of changes in the tariffs,
- (ii) railway companies to publish and make available to interested parties, on a subscription basis, a consolidated statement showing details of all changes in tariffs which result in increases or reductions in charges.

(See Part IV C of this brief.)

(e) that the wording in Subsection (1) of the proposed Section 336 be amended to provide for a clear definition of a shipper who is "captive" to a railway. (See Part V B of this brief.)



(f) that the wording in Subsection (2) of the proposed Section 336 be amended by deletion of any reference to "variable cost and one hundred and fifty per cent" as the level at which the proposed Commission would fix a rate for a captive shipper, and by the addition of wording requiring the proposed Commission to fix such a rate at a level it deems appropriate to the particular case. (See Part VI D of this brief.)

A.E. Rickards  
Manager  
Traffic Section  
Canadian Pulp and Paper Association

## APPENDIX A-38

Cloverdale, B.C.

OCTOBER 26, 1966.

The Honourable J. Pickersgill, M.P.  
Minister of Transport  
Parliament Buildings  
Ottawa, Ontario

Dear Mr. Pickersgill:

We want to thank you for your attention when we were in Ottawa to appear before the Parliamentary Committee on Transportation, and for the interview you gave us Monday afternoon.

After our presentation was made you had an informal discussion with us in which you pointed out that the revenue that the railways would be short on account of equalizing the grain rate moving west for domestic use with the grain rate moving west for export, would be more than our mental calculations on account of flour moving west for domestic use. We would like to draw to your attention that a very considerable amount of the grain which is used for domestic purposes comes over the PGE Railway and this amount would not affect the CNR or CPR revenues although the PGE would become competitive and of course their revenue would be reduced.

The "Economic Analysis of the Feed Freight Assistance Policy" by Mr. T.C. Kerr included table No. 3.4 which showed that during the fiscal year 1963-64 there moved from the Peace River district 103,899 tons of wheat, oats and barley for domestic use which was 72.7% of the wheat, oats and barley coming to British Columbia under Freight Assistance and that the PGE moved 87,592 tons of this total which was 84.3% of the domestic feed grain shipped from the Peace River area.

Mr. Carr, the Regional Feed Grain Officer, Department of Forestry, at Vancouver, advised us that he made a detailed analysis of the feed grain and grain products shipments to B.C. for the fiscal year 1964-65. There were 117,890 tons of wheat, oats and barley shipped from the Peace River district during that year, which was 73.3% of the wheat, oats and barley coming to B.C. for domestic use.

We assume that the same percentage of wheat, oats and barley was shipped via the P.G.E. in the fiscal year 1964-65 as pertained in the year 1963-64 namely 84.3%. Therefore 99,381 tons were shipped via P.G.E.

There was a total of 217,401 tons shipped to B.C. in the fiscal year 1964-65 on which Freight Assistance was paid from Alberta and the Peace River Area. Therefore only 118,020 tons was shipped via the C.N.R. and C.P.R. on which revenue would be lost, plus of course the unknown amount of shipments of domestic flour on which no Freight Assistance was paid.

We wanted to advise of this so that you could take this into account when considering our request.

Yours very truly,  
Lyall A. Currie  
Chairman of the Feed Grains Committee  
B.C. Federation of Agriculture

**APPENDIX A-39**

I, I. Lloyd Thomson, Acting Clerk of the Municipality of the City of Brandon, do

HEREBY CERTIFY the resolution written hereunder to be a true and correct copy of a resolution of the Council of the City of Brandon passed at a meeting held on the 7th day of November A.D. 1966, of which it purports to be a copy.

WITNESS my hand and the seal of the City of Brandon this 15th day of November A.D. 1966.

I. L. Thomson,  
A/City Clerk.

"That the Council of the City of Brandon go on record as completely endorsing the Brief of the Branch Lines Association presented to the Standing Committee on Transportation on November 4, 1966, dealing with Bill No. C-231".



2-2-1907

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OF  
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LÉON-J. RAYMOND,  
*The Clerk of the House.*

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

STANDING COMMITTEE

ON

TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. JOSEPH MACALUSO

---

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 39

---

TUESDAY, NOVEMBER 22, 1966

WEDNESDAY, NOVEMBER 23, 1966

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Respecting

BILL C-231★

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

---

WITNESSES:

*Representing the Government of Alberta:* Mr. J. J. Frawley, Q.C., Counsel; Mr. J. W. Telford, Supervisor, Alberta Freight Bureau. *From the Province of Saskatchewan:* Mr. W. S. Lloyd, Leader of the Opposition; Mr. J. S. Burton, Research Assistant.

*From the Department of Transport:* Honourable J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister; Mr. R. R. Cope, Director, Railway and Highway Branch; Mr. Jacques Fortier, Director of Legal Services and Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966

STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H.-Pit Lessard

and

Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Fawcett,  
Mr. Groos,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Legault,  
Mr. MacEwan,  
Mr. McWilliam,  
Mr. Nowlan,

Mr. O'Keefe,  
Mr. Olson,  
Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*



ORDERS OR REFERENCE

TUESDAY, November 22, 1966.

*Ordered*,—That the name of Mr. Byrne be substituted for that of Mr. Jamieson on the Standing Committee on Transport and Communications.

WEDNESDAY, November 23, 1966.

*Ordered*,—That the name of Mr. Jamieson be substituted for that of Mr. Hopkins on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*



## MINUTES OF PROCEEDINGS

TUESDAY, November 22, 1966.

(69)

The Standing Committee on Transport and Communications met this day at 9.40 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Cantelon, Deachman, Fawcett, Groos, Hopkins, Horner (*Acadia*), Howe (*Wellington-Huron*), Legault, Lessard, Macaluso, McWilliam, Nowlan, O'Keefe, Olson, Pascoe, Reid, Schreyer, Rock, Southam (22).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport.

*In attendance: Representing the Government of Alberta:* Mr. J. J. Frawley, Q.C., Counsel; Mr. J. W. Telford, Supervisor, Alberta Freight Bureau. *From the Province of Saskatchewan:* Mr. W. S. Lloyd, Leader of the Opposition; Mr. J. S. Burton, Research Assistant; Dr. Donald Armstrong, Economic Advisor to the Committee.

Mr. Frawley presented a summary of the brief on behalf of the Alberta government.

The Minister of Transport commented on the Alberta brief.

The Members examined the witness.

At 12.35 o'clock p.m., the meeting was adjourned until 3.30 o'clock p.m., this date.

### AFTERNOON SITTING

(70)

The Standing Committee on Transport and Communications met this day at 3.32 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Byrne, Cantelon, Deachman, Fawcett, Groos, Hopkins, Horner (*Acadia*), Howe (*Wellington-Huron*), Legault, Lessard, Macaluso, McWilliam, O'Keefe, Pascoe, Reid, Rock, Schreyer, Southam (20).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport; Mr. McLelland, M.P.; Mr. Jamieson, M.P.

*In attendance:* Mr. W. S. Lloyd, Leader of the Opposition, Saskatchewan Legislature; Mr. J. S. Burton, Research Assistant to Mr. Lloyd, Dr. Donald Armstrong, Economic Advisor to the Committee.



On motion of Mr. Southam, seconded by Mr. Andras,

*Resolved*,—That the briefs presented by Mr. Frawley and Mr. Lloyd be printed as appendices to this day's Minutes of Proceedings and Evidence (*See Appendices A-40 and A-41*).

Mr. Lloyd tabled maps entitled "Non-Guaranteed Lines Prairie Rail Network" and "Rail Line Abandonments and Abandonment Applications to September 1, 1966".

On motion of Mr. Cantelon, seconded by Mr. Pascoe.

*Resolved*,—That the maps be marked Exhibits A-14 and A-15 and held with the Committee records.

Mr. Lloyd presented a summary of his brief and the Minister of Transport made brief comments thereon.

The witnesses were examined.

At 5.35 o'clock p.m., the meeting was adjourned until 3.30 o'clock p.m., Wednesday, November 23.

WEDNESDAY, November 23, 1966.

(71)

The Standing Committee on Transport and Communications met this day *In Camera* at 3.45 o'clock p.m., the Chairman, Mr. Macaluso, presiding.

*Members present*: Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Fawcett, Groos, Horner (*Acadia*), Jamieson, Howe (*Wellington-Huron*), Legault, Lessard, Macaluso, McWilliam, O'Keefe, Olson, Pascoe, Reid, Schreyer, Sherman (21).

*In attendance*: Honourable J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister, Mr. R. R. Cope, Director, Railway and Highway Branch; Mr. Jacques Fortier, Director of Legal Services and Counsel.

The Committee continued its clause by clause examination of Bill C-231.

Clause 1 Carried as amended

Clause 45 Carried

Clause 46 Carried

Clause 47 Carried

Clause 51 Carried

Clause 52 Carried

Clause 59 Carried

Clause 70 Carried as amended.

The Minister of Transport tabled letters from the CNR and CPR dated September 27, 1966 and October 5, 1966 regarding Prairie Rail Lines Abandonment Applications.

On motion of Mr. Deachman, seconded by Mr. Reid,

*Resolved*,—That the letters be identified as Exhibits A-16 and A-17 and held with the Committee records.

On motion of Mr. Bell, seconded by Mr. Lessard,  
*Resolved* that Bill C-231 be reprinted as amended.

At 4.20 o'clock p.m., the meeting was adjourned until 9.30 o'clock a.m.  
on Thursday, November 24, 1966.

R. V. Virr,  
*Clerk of the Committee.*





## EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, November 22, 1966.

● (9.40 a.m.)

The CHAIRMAN: Gentlemen, I see we have a quorum. We will have two briefs submitted to us this morning; the first will be that of the Province of Alberta. To my right we have Mr. J. J. Frawley, Q.C. who needs no introduction, Counsel for the Government of Alberta at Ottawa, and Mr. J. W. Telford, Supervisor, of the Alberta Freight Bureau. The second brief will be presented by Mr. W. S. Lloyd, Leader of the Opposition of Saskatchewan. We will deal with Saskatchewan as soon as we have completed the Alberta brief. Mr. Frawley.

Mr. J. J. FRAWLEY (*Counsel for the Government of Alberta*): Mr. Chairman, Mrs. Rideout, Mr. Minister, gentlemen of the Committee, I have not a very extensive brief. I have divided it up into comments on the various parts of the bill as it was introduced. The few notes I have at the beginning under the caption of "General" are intended merely to give you a little setting for Alberta in the Canadian freight rate structure. I say at the bottom of the first page that after we lost the 1 and  $\frac{1}{3}$  rule, as it was called, a rule which said that the rate to Alberta from Eastern Canada must not be more than the Vancouver rate plus  $\frac{1}{3}$ , although of course the cars go through Alberta to get to Vancouver, but after we lost that, then as I say, we went back to our accustomed place at the apex of the Canadian freight rate structure. And when I say "apex", gentlemen, it is not a figure of speech. I have an example at the bottom of the first page: "canned goods from Eastern Canada pay \$2.00 to Vancouver, but they pay \$2.20 to Lethbridge, \$2.50 to Calgary, and \$2.61 to Edmonton."

There is one other example and I only have one other to give you. Steel plate moving from Hamilton to Vancouver moves at \$1.05, but it moves to Calgary and Edmonton at \$1.80, and that for the same minimum of 125,000 pounds. We have grown to live with that sort of situation in Alberta, but it does not condition us to accept very easily and graciously the injustice visited upon or which will be visited upon our province if Bill No. C-231 is made law as it stands.

Now in Part I, I have some brief notes on the Canadian Transport Commission. We have no really very great concern. The advantages as against the disadvantages of bringing together the existing regulatory agencies are perhaps questionable, and our view is that we will just have to live with the Canadian Transport Commission as best we can. We are not concerned with the commission itself, but we are terribly concerned with the tying of the hands of the Commission in some of the later provisions in the bill.

I do mention, in dealing with the Canadian Transport Commission, that the most important of its functions will be of the business of determining the costing

techniques to be used; and if there is not a provision made for that now, I do suggest at the bottom of page 4 that something should be added to deal with the commission's cost section, although I have been told that during my absence in western Canada, there have been a great many amendments introduced into this bill.

Now I am at a complete disadvantage, in fact I warn you now that you must not ask my opinion about any of these amendments, whether they will satisfy Alberta or not, because I just do not know anything about them at all. I hope that they are all designed to give Alberta the justice which the bill as drawn certainly did not give her.

Now, I pass to commodity pipe lines, and I make no excuse for Alberta taking a pretty firm stand on commodity pipe lines. There is not any doubt at all that Alberta—it may not sound too modest—knows more about pipe lines than any other province in Canada, and that is only natural because of the tremendous development of oil and gas in Alberta, which of course moves not by freight car, but by pipe line.

In the light of the experience which we have had with pipe lines, we say—and we say flatly—that all this part should be struck from the bill. Those are my instructions from the government of Alberta, that we do not need a commodity pipe line section in the bill. Now, if, as, and when, in the light of future developments, it becomes important to make provision for commodity pipe lines, that would be time enough to put something into the statute law of Canada, and when that is being done, we would say, we would express the view respectfully that the business of regulating commodity pipe lines should be entrusted to the National Energy Board and not to the Canadian Transport Commission which, in my view will be railway-oriented.

My main proposition, therefore, is that this should be struck from the bill. If the Committee is not inclined to strike it from the bill, then I have some further observations to make. The first one is that the definition should be amended to restrict the commodity pipe lines to be regulated by this statute to 'for hire' pipe line. If the Shell Oil Company or any other oil company decides that it would be economic, profitable and feasible to move its sulphur from the Pincher Creek area of Alberta to Tidewater, then they should be allowed to move that sulphur in its own pipe line, and I make a very homely little example just as much as a factory in western Ontario is entitled to move its goods down into Quebec to its Quebec market without asking the Board of Transport Commissioners or the new Canadian Transport Commission what it should charge. In other words, that is a private enterprise and just as that sort of movement is outside of the regulatory control, so privately owned pipe lines should be outside of control. Therefore, I should suggest an amendment to make very clear in the definition that the jurisdiction is limited. If this part is to be left in the bill at all, then it should be limited to public carriers by pipe line for hire or reward.

Then of course I call attention to the danger that would lie in committing to this transport commission the business of regulating pipe lines. I very much fear that in this railway-oriented pipe line commission there would be a tendency to disallow a pipe line tariff if it did not conform, in the view of the commission, to the tariff for carrying goods by railway. I give you an example, the Committee will remember that the coal operators of western Canada,

Alberta and British Columbia, came before the Committee and complained that the rates they had to pay to move coal from the Crowsnest Pass area to the Pacific Coast was actual variable. I am, of course, not referring to the fictitious variable. It was the actual variable moving it in carloads of 142,000 pounds plus 84 per cent. That was a rate with which the Board of Transport Commissioners had lived and were living, notwithstanding the fact that the average contribution to burden in the United States, for coal, was 7 per cent. So, I just express the fear, on behalf of the province of Alberta, that if there was a rate established by the common carrier pipe lines that represented a contribution to overhead of say, 25 per cent, that that might very well be a candidate for disallowance because that railway-oriented commission would say: Well, coal is paying 4 per cent contribution, we cannot have sulphur paying by pipe line variable cost plus 25 per cent.

Now, I just take 25 per cent out of the air. I just say there is something inherently wrong about committing to a railway-oriented transport commission the control and regulation of the movement of commodities by pipe line. It is gratifying to note that by the section this part is not to come into force except upon proclamation of the Governor in Council. It is obvious to say that there is no present urgency for this legislation. As a matter of fact, I might say in parenthesis that the Alberta Research Council is doing far more of the research work on commodity pipe lines than any other institution in Canada without exception. Certainly, from what they tell me the sulphur is not going to move next week or the week after. It is going to be quite some time for sulphur or powdered iron or some of these things that seem to be getting close to an economic proposition; but, it is down the road quite a piece.

It may be commendable to be so foresighted as to include in this bill provisions for the regulation of commodity pipe lines, but we say that there will be some considerable delay, and during that time the government of Canada should acquaint itself with the work that has been going on and there is no better place for them to go than to the Alberta Research Council and to the oil and gas industry in Alberta.

Now I pass to extra-provincial motor vehicle transport. I am instructed to say at the very beginning that there is no problem administering the federal statute called the Motor Vehicle Transport Act. There is no problem in Alberta. Therefore, we question the need at this time for any federal intervention. The Committee will recall that in 1954 a case was taken to the judicial committee of the House of Lords from New Brunswick in connection with an international bus line originating in Maine and terminating in Nova Scotia. There the Privy Council held that it was an enterprise subject to the exclusive jurisdiction of parliament under the British North America Act. But, they actually went so far as to say that even the intraprovincial character of that bus line was federal and subject to the exclusive jurisdiction of parliament. So, the enbusing of a passenger in Saint John, New Brunswick and terminating at Moncton was something subject to the exclusive jurisdiction of the parliament of Canada.

Now what happened when that judgment came back from London? Well, I well recall going to a federal-provincial conference and the then Minister of Justice, Mr. Garson and the then Minister of Transport, Mr. Chevrier, made it clear to us that they did not want any part of the regulation of highway transport. They just would not listen to any argument. This had to go to the



province. So, they hit upon the idea of passing this Motor Vehicle Transport Act which conferred upon each provincial highway traffic board the jurisdiction to regulate interprovincial highway traffic. That has been the situation since 1954. I repeat, in Alberta in any event, we have not had any problem.

Now, the Minister of Transport has made it clear that this part of the bill, Part III, will not go into effect until there has been full consultation with the provinces, and I know that his officers have already made some trips into western Canada and perhaps elsewhere, conferring with the minister in charge of the highway traffic board. In our province it is the Minister of Highways. Certainly that indicates just what the Minister of Transport said. He does not want to inflict federal control of interprovincial motor transport upon the provinces except with the full consent of the provinces. And, of course, it really could not be any other way. From a practical standpoint it could not be any other way, because it is the province, the Crown in the right of the province, that builds, maintains and owns the highways over which this interprovincial highway transport would pass. So, it is elementary that you simply could not inflict, against the will or wishes of the province, federal jurisdiction over interprovincial highway transport.

I would only suggest that when that day comes, and it is felt that for the good of the whole Canadian economy, interprovincial transport must be regulated federally, then, I say, that certainly at least very careful consideration has got to be given to the intraprovincial aspect of interprovincial transport. It is difficult to see why the carriage of goods by highway between Calgary and Edmonton or between Regina and Moose Jaw should be subject to federal control in any way. I would think that probably something could be worked out to at least leave intraprovincial motor vehicle transport with the provinces.

I have nothing to say, of course, about Part IV which is something to transfer the jurisdiction over bridges to the Minister of Public Works.

Now, gentlemen, I come to Part V which, in so far as Alberta is concerned, is the principal part of the bill. I will make very brief comments about uneconomic branch lines and unprofitable passenger services. I do not want to be facetious, gentlemen, certainly not, but I suppose it is a fact that Alberta was not overbuilt with branch lines and probably because of this we have not the same sort of branch line problem as they have in some of the other prairie provinces.

We have no comments or serious objection to make. I think the Minister of Transport is to be heartily and sincerely commended for having worked out an arrangement with the railways that has resulted in that now well-known map with the yellow lines on it, the yellow lines being the ones that are frozen and guaranteed until 1975.

● (10.00 a.m.)

There are some branch lines which are not guaranteed. We have 330.8 miles of those roads. Just to interject a bit of a problem, I was a little disturbed to receive from the Canadian Pacific Railway yesterday a copy of a communication addressed to the Board of Transport Commissioners in connection with—nothing world-shaking in importance—a little branch line called Cassils in southern Alberta. All I am disturbed about is, what are the ground rules with regard to these branch lines which are not shown in yellow on Mr. Pickersgill's map and which are candidates for abandonment. I just do not know. I thought there were

to be some rules laid down with regard to these matters. As I say, whether the Cassils subdivision is going to be abandoned or not is not going to shake the economy of the province of Alberta, and I will probably not be instructed to pay the slightest attention to it. But, I am mostly concerned with knowing just what are the ground rules. Are these abandonments for the 338 unfrozen miles in Alberta to be proceeded with just if, as and when the railways think they should proceed? Probably, and we will have to meet that. But probably as you go along someone else may have something to say about that.

Now, in connection with passenger service discontinuances and branch line abandonments also, to us the important consideration, far transcending everything else, is the discretion given to the commission to accept or reject items of cost or revenues submitted to establish loss on branch lines and on so-called unprofitable passenger services. As to that, we are anxious to have ample opportunity not only to appear by ourselves but to appear and bring on behalf of the province, knowledgeable consultants to make representations to the commission in connection with the costing techniques to be used in arriving at branch lines losses and passenger line losses.

Now, when I look at section 314A I find that the definition of actual loss in relation to any branch lines means the excess of I, the costs incurred by the company in any financial year, and so on. I find no definitions of the word "costs". Then it goes on, the excess of the costs over II, the revenues of the company and I find no definitions of "revenues". That is what I mean when I say it is important that we know. I say it is important before this bill becomes law that we know whether the word "costs" which I find on page 20 of this bill in Section 314A are variable costs only or are they variable plus constant cost. It may be that in one of these many amendments that have been introduced that has been taken care of. Certainly, it should be taken care of.

I have grouped, at page 12 of my brief, clauses 44 to 47, because these are the clauses which eliminate from the Railway Act present sections 317, 319(3)(4), 320, 322, 323 and 324. Now, as I say on page 12:

Those sections establish the fundamental proposition which originated in the common law of England that a common carrier must charge tolls and afford facilities without favoring or unduly preferring one user against another and without discrimination. That principle of the common law was embedded in the statutes of parliament and the statutes of the provincial legislatures.

With one bold sweep, they are struck out of this bill.

On page 12 I recite what these sections do; I certainly need not read them. This is just a short summary of the prohibition against unjust discrimination and the prohibition against undue preference.

Then I come, on page 13, to what is, of course, important and that is the business of looking for the quid to oppose the quo. What do we get? What does the shipper get? What the railway gets is obvious; it is written right there. They get the elimination of all of these ancient common law restrictions on committing unjust discrimination and committing undue advantage. Now, it certainly is simple as to what the railways get. That is part of the new dispensation. That is the new found freedom these railways must have. But, after all, there are other people in Canada besides the railways

and they are the people, the shippers. Now, what do the shippers get? What do the shippers get by way of compensating the public for the removal, as I say on page 13;

The removal of the ancient right to use the facilities of the common carrier without fear of unjust discrimination.

The removal of the requirement that all rates except those made to meet competition must first be approved by the regulatory body.

I would not want to omit that. It also is one of the serious consequences of this bill. They remove the prohibition against unjust discrimination. They remove the prohibition against undue preference or undue advantage and they also remove the control of the regulatory body over the non-competitive rate. Non-competitive rates, of course, are supposed to regulate themselves. But those rates that cannot regulate themselves, well, from now on they will, because the Canadian Transport Commission is not going to have anything to say about them. The third one is:

The removal of the obligation on the railway to first obtain an order of the regulatory authority before increasing class rates and non-competitive commodity rates?

Which, in a sense, is saying the same thing. What does the bill provide, to balance in the interest of the shipping public, this much-heralded freedom of the railways. The draftsman is helpful there because he says in very simple language:

Section 317 requires that all tolls shall always under similar circumstances be charged equally to all persons and spells out this 'equalization of rate' rule in some detail. This rule is being replaced by the compensatory rule under the new section 334—

That is number one.

—and the provision of a maximum rate for captive shippers under the new section 336.

That is number two. He goes on:

The new section 317 would require a public inquiry to be held where the public interest may be prejudicially affected by the acts or omissions of railway companies or as a result of the new freedom in rate making.

So that is what we get. We get section 334 which I rather recall Mr. Sinclair describing as saying: No more predatory rates. As a matter of fact, it would not be out of place at all to just make a note of what Mr. Sinclair said at page 2015 about what the shipper gets after all of these restrictions and prohibitions which have been there since ancient times are all removed. What does the shipper get? This is the interchange between Mr. Horner and Mr. Sinclair at page 2015 of the transcript:

Mr. Horner (*Acadia*): Another thing is going to happen if this bill is passed. We are no longer going to have any protection over the setting of non-competitive rates. Am I right in this?

Mr. Sinclair: You are going to have it this way,

(a) that the rates cannot be set at a predatory level. That is the floor.



- (b) if the man who is the shipper has not got other sanctions section 336 protects him. And section 336, even though it is not used by somebody, does act as an umbrella.

Now there are many places in which he says the same thing but that perhaps is good enough.

Those are the three things we are to get in lieu of this new freedom. We are to get 334 which prohibits predatory rates. We are to get 336 and I have something to say about that later. Then we have 317 which is the section which talks about public interest and public inquiry. That is what we get.

Here are my comments about that, gentlemen and I am at page 14 of this brief:

The new section 334 introduces no new principle. Rates always must be compensatory in that they must return variable cost and in addition a contribution, however small, to constant costs or overhead. Under the present Railway Act the Board of Transport Commissioners will always disallow a rate which failed to meet the foregoing test.

That has been there from time immemorial. With great respect, it is not for Mr. Sinclair to say that now we are going to have no more predatory rates; we have never had them. So clause 334 does not put anything into the scales to balance the removal of the unjust discrimination and undue preference, and the removal of the control of this regulatory body over all non-competitive rates.

Clause 336 is the next thing we have in this new charter for the shippers. This clause, which introduces maximum rate control, is so hedged around with fictitious and unreal restrictions as to make a travesty of what otherwise might have provided real relief for the shipper who, because of the absence of effective competition, is required to pay rates which contribute excessively to constant costs or overhead. I will have some further comments on that.

There remains clause 317. Shortly stated, the clause provides that any person who has reason to believe that a rate made under the new dispensation may prejudicially affect the public interest—those are the key words—such a person has to have in mind that what he is starting out to prove is that this rate that he does not like will prejudicially affect the public interest in respect of tolls or conditions of carriage, and he may then apply for leave to appeal the result of the making of the rate. Without being critical at all, because I could not have drawn a better one probably, it is not much of a clause. It is pretty badly done, if I may say so without being critical of people who belong to my union, drafted that and, I am sure, did a very good job. It is not the clearest clause I ever read. In any event, the shipper may apply to the commission for leave to appeal the results of the making of the rate. If the commission is satisfied that the applicant has made out a *prima facie* case of public prejudice—that is what he has to make out, a *prima facie* case of public prejudice—it may grant the applicant leave to appeal; that is, to endeavour to establish that the rate in question prejudicially affects the public interest. If leave to appeal is granted then presumably the applicant, now an appellant, assumes the burden of following through in the investigation which the commission may undertake. In any event, the section requires that a public hearing be held before the Commission makes its finding. That alone will mean an appreciable expense to the appellant.

At the top of page 15 I say, and I really mean this:

One can be excused for suggesting that section 317 seems to be deliberately drawn to assure that it will be little used, except perhaps by large and wealthy corporations.

I will give you a little bit of an example. Let us consider the case of a small food processor in Southern Alberta who seeks relief from a rate to Eastern Canada made under this new rate making freedom. Such a shipper would be compelled to establish that his rate prejudicially affects the public interest. What public interest is it, the national public interest, the provincial public interest or the public interest of the vegetable growing areas of southern Alberta? Certainly he must establish more than a prejudice to the interest of his own business. But, you see, the prejudice to his own business would have been his only concern under the protective provisions that have been abolished. Why should there be so much concern, gentlemen—because there seems to be—to make it difficult and expensive for a shipper to complain about a prejudicial or discriminatory rate. Is it the result of a concern, as it is, indeed, with clause 336, for erosion of rail revenues, to the exclusion of concern for the shippers. It is our view that clause 317 as drawn will be seldom if ever used, and that is a poor substitute for the protective provisions in the existing clauses 317, 319, 320 and 328.

Now I come to clause 336, gentlemen. I note by way of beginning that you will hear on Thursday of this week from Dr. Ernest W. Williams, Jr. of Columbia University and Dr. George H. Borts of Brown University in Providence, Rhode Island. They will come before you and appear on behalf of the Atlantic provinces and the provinces of Manitoba and Alberta.

I now want to make some observations on clause 336. This clause provides that maximum rate control procedure shall be available to a shipper of goods for which in respect of those goods there is no alternative, effective and competitive service by a common carrier other than rail. Clause 336 is the heart of the bill in so far as the province of Alberta is concerned. It cannot be too closely examined because it represents what is given to the shipper who has had to surrender these common law rights to which I have referred and the control over increases in the non-competitive rates by the public agency. There is an implication to the loss of control by the new Commission that I hope does not go unobserved and unnoticed. When the commission gives up control over increases in the non-competitive rates they remove all effective control over the level of net earnings which is to be permitted the Canadian Pacific. You will understand what I mean when I say the Canadian Pacific Railway because for many years now the Canadian Pacific has been the yardstick company in the railway structure of Canada, and it is only the needs of the Canadian Pacific Railway that cause any concern to the regulatory body. So it is because clause 336 is given to the shippers in lieu of what is taken away that this is so vital. So let us take a look at this clause. I say parenthetically something on page 16 that I think needs to be said:

The Committee has heard it said repeatedly that if a shipper has market competition (and most shippers have) he is not captive within this section. This is a wholly untenable statement. There is not a word in the definition which goes beyond carrier competition. Further, the quotations

which follow from the MacPherson Report make it clear that existence of market competition has no place in the determination of captivity.

Now, Mr. Chairman and gentlemen, the important word in the definition is "effective". If a rail rate returns variable costs plus, say, 500 per cent, then even though there exists an alternative truck service or water service, that alternative service is not effective. If it were effective the competing rail would not be able to exact a rate with such a large contribution over variable costs.

That I agree, gentlemen, is my fundamental proposition, and I have some documentation for it. There is no doubt that that is what the MacPherson report set out to do, and I have two or three short passages from the MacPherson report, Volume II, which I would like to read, because they make it clear what the expression "areas of significant monopoly" means. At page 94 of Volume II, the commission said:

Nevertheless we found evidence that for some rail movement the rates were many times higher than costs, indicating that a significant degree of monopoly still exists in at least a few commodity areas.

And at page 99:

It is our conclusion that maximum rate control can come closest to attaining these objectives and gaining these attributes if it is based on the variable costs of the particular commodity movement plus an addition above variable costs such as will be an equitable share of railway fixed costs.

And they said at page 101:

The function of maximum rate control is to place limits upon the share of these fixed costs the captive shipper must carry. The weight of the burden of inallocatable overheads determines the justice and reasonableness of the rate.

In my submission, gentlemen, there is not any doubt that that is what they were talking about. It was not that way in Bill No. C-120 and I think credit should be given where credit is due; the present bill, after one or two tries at it, does come up with a definition which puts in that word "effective", and that is the important word. Take the word "effective" and read that in conjunction with what the MacPherson commission said about areas of significant monopoly. They say: "An area of significant monopoly is an area where the rates are many times higher than cost." and again, the object of maximum rate control is to add to variable costs an addition which will be an equitable share of railway fixed costs.

Then they said again, to emphasize it: "The function of maximum rate control is to place limits upon the share of these fixed costs the captive shipper must carry." I think there is a complete absence of an effective, competitive service if the railway can charge rates which are many times higher than cost. So my proposition to the Committee, Mr. Chairman, is that any shipper who feels that his rate makes an excessive contribution over variable costs—and I mean, of course, true, actual variable costs, not some fictitious cost—should be able to invoke the maximum rate control procedure, have his costs determined, and a maximum rate fixed, and, as I say—giving credit to the draftsman who drew the definition in the new bill No. C-231—that is what clause 336(1) provides.



I will go on with two or three more quotations from the MacPherson commission by way of emphasis. At page 104 of Volume II, the commission report reads:

The decision to seek captive status must rest with the shipper.

It is not just some set of outside circumstances which suddenly arise that automatically made that man a captive shipper. After examining his rates, if he suspects that there is an inordinate contribution to overhead, he then decides to seek captive status and the shipper is the man who not only decides, but is entitled to decide, that he wants a rate determination and the fixing of a rate.

Then, at page 105,

Having received the maximum rate determination, the shipper then decides whether to declare himself captive.

In my submission that is in line with what the royal commission reported and it is in line with the definition which you have before you at the moment, gentlemen. Up to this point we have determined who is a candidate for invoking the maximum rate control machinery. So far, so good. We have an unobstructed path in determining who is the candidate for captive status and, just for emphasis, let me say that in my submission a captive is any shipper shipping any kind of traffic who suspects excessive contributions to overhead. You may ask me: Well, how would he ever know that his rate is making an excessive contribution? Well, gentlemen, an interesting situation has developed and there will be plenty of good reliable data, without going begging to the railways for it, which I am sure will be published—I would even offer to publish it—information which comes from an examination of the Crowsnest grain study in the report of the MacPherson Royal Commission.

This Committee is aware that the Canadian Pacific Railway proposed to the MacPherson Commission that that it had lost \$17 million—they had a shortfall of \$17 million. Well, two provinces in western Canada, the provinces of Manitoba and Alberta—I always mention Manitoba first because I am polite and, secondly, in the order of confederation they must be mentioned first—undertook to defend the people of our provinces, people of all the provinces, against the allegation that the rates were so noncompensatory that the Canadian Pacific Railway suffered an out-of-pocket loss of \$17 million in 1958. And so the two provinces of Manitoba and Alberta spent \$100,000—of course, that was not nearly as much as the Canadian Pacific Railway spent—to challenge this allegation. And we challenged it successfully, because the men who made that report—and one of them is one of the men who is coming to see you on Thursday—came to the conclusion that far from having lost \$17 million on Crow grain in 1958, they had made half a million dollars. This is a very small “plus”, I agree. The commission and its experts took those two figures of \$17 million shortfall, which was the Canadian Pacific figure, and the Alberta-Manitoba figure of plus half a million, and as you know, they came up with a \$2 million shortfall. Well, that was a little more acceptable to us than the \$17 million.

I must not stray too far from the point I am making, and I must be pardoned for making the observation that although the Canadian Pacific Railway Company refused to furnish those costs to Premier Thatcher of Saskatchewan, to Premier Manning of Alberta, and Premier Roblin of Manitoba, in 1958, when they wanted to establish that they lost \$17 million, the costs were coming out of

their ears. Our experts were sent to Montreal and they were given bushel baskets of costs to show, of course, in that case that they were losing \$17 million. But when we wanted to show what this clause 336 would do to this bill and to the shippers of western Canada, the door was closed and the lock was turned in it, and we were not given one of those costs. Fortunately, there is enough data. The coefficients can be drawn from those grain costs, and that will show enough data of a general character—it will show average system costs—so that any shipper who suspects, having looked at these coefficients, that his rate is making an excessive contribution to overhead, is a candidate in my submission, supported by what I have read from the MacPherson report, for captive status, and he may apply to have a rate fixed for him.

Having established that, I am very sorry to have to say that the whole thing ends right there. We have an ideal candidate for the declaration of captive status. But the machinery provided for him to give effect to this captive status is so—well, there is not any use of resorting to colour adjectives—unreal that people cannot go any further at all. He is a candidate for captive status, a candidate to have his rate fixed but, of course, he will not go any further at all because this shipper or any shipper can have no meaningful determination of a rate because of the ridiculous provisions in clause 336 for the determination of a rate.

However definite his captive status may be, the other half of the clause renders relief completely unattainable. That is the bill, gentlemen, that you people are being asked to report to parliament. Now, I must say—because the arithmetic establishes it—that there is one class of shipper to whom this applies. I suppose that the shipper who ships day in and day out in 30,000 pound cars, and whose contribution to fixed costs is more than 150 per cent over those 30,000 pound variable costs might be inclined to say: Well, I would like to seek determination of my rate. I qualify; I am a captive shipper; I suspect there is an excessive contribution; I am moving in 30,000 pound cars; I am not one of those people who are shipping in 140,000 pound cars and have to accept costing on 30,000 pound cars; I ship in 30,000 pound cars. So probably, in that limited class, there might be an application. But, gentlemen, I put it to you, was this bill introduced for such a shipper alone? Was it introduced just for the man who ships in 30,000 pound cars, day in and day out and if he ever gets over 30,000 pound cars then fictional costs are visited upon him? I say: No; in my respectful submission, no. And even in that case, as I said a moment ago, he has to be satisfied that the 150 per cent formula—because he still has that visited upon him—will be automatically a just addition to variable costs. I say there is no assurance, even in that case, that the addition of 150 per cent is a just addition.

Now, I come to the rate determination formula on page 18 of my submission. I am going on now with an analysis—not too extensive, gentlemen—of the two factors in the rate determination formula, the 30,000 pound carload and the 150 per cent contribution to overhead.

I say to the Committee: What shipper, shipping day in and day out in 140,000 pound cars, would even discuss the matter further if he is told that his carloads must be costed as if they were 30,000 pound carloads? There is no doubt about the trend; you gentlemen know the trend. You people probably saw, as I did, an advertisement of the Canadian National Railways in a recent issue of *Time*, a double spread advertisement in the centre of the magazine, illustrating

all these new cars that they have. I should have brought it over to show to the Committee in case it might be put in the records; I might hand it to the secretary some time, Mr. Chairman. But I would venture to say that there was not a single car in that coloured spread that was a 30,000 pound car. Of course not, because that is not the way shipments are being made. The whole trend is towards bigger and bigger carloads. So, in the light of that, I ask the question: What possible justification is there for constructing maximum rate control on the false foundation of a 30,000 pound carload?

Now we pass to the 150 per cent contribution to overhead because either one, of course, is vital. Obviously the 30,000 pound carload is such that it just stops the whole procedure at the door. It just stops everything at the threshold. If a man is shipping in 140,000 pound cars he does not go any further at all. The thing is meaningless to him and he does not pay any attention to it at all. But then we go on and look at the 150 per cent contribution to overhead. This is an important and vital part of my submission, and if you will bear with me I would like to read these few lines. I read from page 18:

There is no special magic in the use of 150 per cent as the amount to be added to variable costs as a contribution to the railway's fixed costs, or constant costs or overhead.

The MacPherson Commission was concerned that there should be such an addition to variable costs "as will be an equitable share of railway fixed costs".

And I have quoted that passage for you already. Now, it is obvious that:

The contribution to fixed costs must provide the railway with the funds required to pay all other than variable costs, including a profit on investment. For that reason there must be a definite relationship between what is permitted as a contribution above variable costs and the nature of the profit which it is desirable and acceptable that the railway should earn net after provision for all costs, variable and fixed.

Is it conceivable that the bill should have no regard whatever to whether the Canadian Pacific earns net 2 per cent or 20 per cent? But that is precisely the effect of sanctioning fictitious costs, because 150 per cent added to fictional variable costs is still wholly fictitious. So you are abandoning entirely any control over the rates of profit net which the Canadian Pacific is entitled to earn. I do not think that that is the concept in the bill; but if it is, well then we certainly have lost everything that we thought we had gained when we convinced the government of the day to set up the MacPherson royal commission in 1958.

I go on, on page 18 to say:

What is the acceptable profit is a matter for determination by the Transport Commission after the evaluation of actual—not fictitious—variable costs and of the company's fixed costs duly screened by the Commission's staff. When the Commission has determined the acceptable level of net earnings the fixing of the percentage contribution over variable which a maximum rate must make should not be a matter of particular difficulty...



I ask the question: How can 150 per cent be—quoting from the MacPherson report—“an equitable share of railway fixed costs”, because that is what it is intended to be. The 150 per cent is intended to provide an equitable share of railway fixed costs, but how can it possibly be when you cost a 140,000 pound car at 30,000 pounds? All you are doing then, gentlemen, is assuring that the shipment's costs will not only be fictitious—they are obviously fictitious—but they are ridiculously high. We have been told, when the Canadian Pacific was putting in its presentation, that clause 336 will never be used because the potential candidate for the captive shippers status will not follow through. There are references there, in case any one of the committee would like to refresh their memories. At page 1996 Mr. Sinclair said:

Do you know what is going to happen here?

Mr. Horner (*Acadia*): I want to know.

Mr. Sinclair: In my judgment, a fellow will take a look at this and he will think: ‘I am possibly going to be a captive shipper’. Even if he does qualify and he gets the range of rates, he will see that he has so much of a better deal existing through negotiation with the railway that he will drop it immediately.

Mr. Olson: That is exactly right.

Mr. Sinclair: If I may, Mr. Olson, it is a protection for the man who is able to say that the railways have taken advantage of an effective monopoly and have held them up to too high a charge.

Mr. Horner (*Acadia*): This is a point that I have been trying to clear in my own mind and for the people that I represent. How much protection will there be. You say it will be used ‘few and far between’. You are, then, agreeing with me, because there is no protection at all.

Mr. Sinclair: No; because they have greater protection, they do not need legislative protection.

And at page 2002:

Mr. Olson: In any of these commodities that I presume are moving under what is termed non-competitive commodity rates, you do not think there is anyone who could qualify for the term “captive shipper” and apply for a rate under section 336?

Mr. Sinclair: What I would say is that he might meet the definition but he would never apply because he has greater factors of protection than he would ever get under the section.

Mr. Olson: We get back to the same old thing. What is the use of having a section in the bill providing maximum rate control if it is not going to be used, and if there is very little or no possibility that it will ever be used.

Now, gentlemen, perhaps I should apologize for referring to Mr. Sinclair's statement, but after all I suppose there are two ways of presenting one's case. You present your case substantively and then you endeavour to answer what the opponent has said—and I use the word “opponent” advisedly. Mr. Sinclair said, “We would negotiate a rate below the clause 336 rate.” Now, I really find it difficult to understand what Mr. Sinclair means by the words “We would

negotiate". There has been negotiation for years. This bill does not introduce rate negotiation between railways and shippers. Of course, there are powerful shippers and there are weak shippers, but there are negotiating shippers, and there always will be and there always have. I say with the greatest of respect for my friend Mr. Sinclair, he has just drawn a red herring across the trail when he talks about "We would negotiate". Well then, let him negotiate, but do not tie it up to this bill. This bill does not introduce the rates to negotiate. And then, just look at the atmosphere for negotiation created by Bill No. 336. The railway is perfectly secure, because they know that in the last analysis the statute is only going to compel them to give the man a rate which is 150 per cent over 30,000 pounds costs. So, the protection that is there, the protection of the rates that Mr. Sinclair is talking about, is a protection against a phony rate which is 150 per cent added to false variable costs. Now you imagine any worse atmosphere for negotiating a rate with the railways—the thing that Mr. Sinclair says is going to replace clause 336. Clause 336, in the submission of the province of Alberta, is useless as it stands—and we are supported by Mr. Sinclair who told the committee that he could not think of any shipper who would use clause 336. If Mr. Sinclair was speaking of clause 336 as it is drafted, and he was—that is what he was talking about—then we agree with him unreservedly that the clause will not be used. Certainly it will not be used by the shippers in the areas of significant monopoly which, by the MacPherson report's own definition,

... are the shippers whose rates are many times higher than costs.

Nor will it be used by both shippers of bulk commodities because, the determination of a maximum rate based on 30,000 pound carload costs, in those instances would be purely farcical.

I am just going to pass over pages 18 and 19. It is just putting down for the record the request which the provinces made to the Canadian Pacific Railway—and they requested the government of Canada to use its influence with the Canadian Pacific Railway, to allow our consultants to confer with regard to those costs and to continue the conferences, which we had begun, with the officers in the Department of Transport. But, those costs were refused.

Now, I am not going to read all of page 20. I will just skip over this. We do say before we leave the subject though, that we urge the committee to reconsider its support of the Canadian Pacific railways in refusing to supply the cost data which is so badly needed to enable any meaningful understanding to be reached on clause 336. And on page 20, I quote what the Canadian Manufacturers' Association has to say about the bill. I am somewhat fortified in quoting that because that was put on the record by the Canadian Manufacturers' Association, and the brief said that they were the result of the work of knowledgeable cost people, and my very firm recollection is, there was no challenging when these costs were put forward by the C.M.A. When these costs were put to Mr. Sinclair there was just a sort of what we call a confession and avoidance; there certainly was not any denial or questioning of the validity of these costs. So you see, the protection that Mr. Sinclair is talking about again shows up very plainly in this little quotation. Here is a shipper whose established rate is \$2.68. That is the one that he is negotiating. And incidentally, he negotiated that months and years before this bill was ever introduced, you know. This negotiation has nothing to do with this bill. Mr. Sinclair seems to work it in as some-

thing that comes as a result of this bill. It is just a negotiated rate that was negotiated months and months before. But now the bill offers that \$2.68 man the protection of a rate of \$14.64. Can you imagine anything less protective than that. But that is the atmosphere of the person who is going down under the protection of this section to negotiate with Mr. Sinclair for a better rate.

Now, I come to my suggested amendment, on page 20, which I would certainly like to have the committee receive and act upon.

We urge upon the Committee to amend section 336 so as to

- (a) substitute actual variable costs for the fictitious variable costs which the Commission must use in determining the fixed maximum rate.
- (b) substitute for the 150 per cent contribution to be added to variable costs such percentage as would reflect a desired level of railway net earnings.

And I need hardly add that that would be a determination to be made by the Commission. The importance of amending the statute now is that once the statute is passed it is perfectly obvious gentlemen, the Commission then must use the 30,000 pound car and the 150 per cent; there is not any latitude any more at all. They must use the 30,000 pound car. And so, the iron ore concentrates moving from Northern Manitoba into Fort Saskatchewan, Alberta—and they move there because they can take advantage of the leaching process which comes from the use of natural gas—in 120,000 or 125,000 pound cars would be costed on the basis of 30,000 pound cars. Now gentlemen does it require any more than the merest statement to indicate how ridiculous that would be. But the Commission must do it, and that is the importance of it. The Commission has no alternative. Once this statute is passed, and I go to the commission and say: Oh, you surely will not cost these iron ore concentrates or the sulphates or anything else on 30,000 lb cars because they are moving at 120,000 lb cars, it will say: That is exactly what we are going to do because there is the statute, Mr. Frawley; you can read it as well as I can read it. And that is all. There is no question about it. We must not be misled by anything that the Commission can do by a series of regulations or anything of that sort. They would have to cost on 30,000 lb cars and they would have to add to this fictitious cost 150 per cent. Now, I am instructed to put to the Commission that if the committee rejects this plea then clause 336 is a futility, it should not be enacted and it should be struck from the bill. There is not any question about where Alberta stands on it; it is useless—everybody agrees that it is useless if it remains as it is, so strike it from the bill. But when you do that of course, then you have certainly got to restore these things that you have taken out away from the shipper because it is inconceivable that you would strike out clause 336 and then still leave out the prohibition against unjust discrimination, undue preference and the removal of all control by the regulatory commission of the non-competitive and commodity rates. If clause 336 remains as it is, the calendar is turned back to 1958. The railways will resume the same kind of price discrimination, which required 75 per cent of an authorised increase to come from 39 per cent of the revenue. That was the evidence put in by the railways themselves in the last increase case that there was before the Royal Commission was set up. Seventy-three percent of the authorized increase they were seeking, they said, would have to come from 39 per cent of the revenue. That was what they were complaining about, gentlemen.



It was not that we were not willing to pay our fair share of railway increase costs, but it was this addition. Every rate always pays costs—I cannot repeat that too often, every rate pays variable costs. It is the top part of the rate where the discrimination takes place and where you seek to put upon the long-haul shipper, the non-competitive rate man and the class rate man, more than you are able to put on the competitive rate shipper. Now that was the situation in 1958. We thought we were getting rid of that. The MacPherson Report after long consideration said those things that I have quoted in my brief this morning, and said yes, maximum rate control will bring about an equitable share of the fixed costs in the rates. We would be right back where we were if clause 336 goes through now, with of course the removal of control of the commission over the rates and the removal of unjust discrimination. I say the railways would be free to practice price discrimination they have practised before 1958; in other words, finding the contribution to overhead wherever the traffic will bear it. That was the price discrimination of which we complained. Some rates will pay little contribution above a variable. Other rates will contribute excessively. The objective of the MacPherson Report, that maximum rate control will bring about equitable sharing of railway fixed costs, will go by the board. Does the committee really want that result? Does Parliament really want that? I plead with the committee to accept the amendment which I have proposed, and give us two variable costs depending upon the nature of the movement and the addition not of 150 per cent, 250 per cent, 10 per cent or any fixed amount that is written in the statute—that is a rigidity that should not be there—but two variables, and add to that such percentage as will permit the railway to meet fixed costs on the basis of an acceptable level of earnings. Then we will have what the Royal Commission Report recommended, namely, no more rates that are many times higher than cost; then we will have the equitable sharing of fixed costs, and then we will have the imposition of reasonable limits on fixed costs. As I have said, and I repeat, if clause 336 has to stay as it is, then strike it out. Nobody says it is ever going to be used; why leave it in the bill? Let us see clearly, plainly, exactly, the kind of legislation that the Parliament of Canada is giving to the people of Alberta for whom I am speaking.

The balance of my brief, having said what I wanted to say about clause 336, is to some extent, I suppose, an anticlimax. I call attention to one or two things because they are really intriguing. At page 21 I call attention to clause 341 subclause (4). The draftsman said on the page opposite page 49 of the bill, in which he is explaining the dropping of section 341 (4)—I will not read the section but I would like to read what the draftsman's note is:

“Section 341(4) places the burden of proof upon the railway to establish that there are greater costs involved in a joint carriage than in a single-line carriage, where the rates in the joint tariff exceed the rates in the single-line tariff. It is only in such a case that the higher tariff is permitted.”

Now that is what is being abolished; that is what is being dropped out. So I say, what is there to justify the abolition of such a sensible provision? The present section protects a receiver located on one line with respect to goods originating on the other line, and that is important in Alberta because, as you know, the whole of the province south of Calgary is the exclusive preserve of the Canadian

Pacific Railway and, conversely, many parts of central and northern Alberta are served by Canadian National exclusively. It is difficult to understand why such a sensible thing as clause 341(4) would be removed, because that is the rate that protects movements from an exclusive area. For instance, at Exshaw on the mainline west of Banff in Southern Alberta there is a large cement works, and that cement goes all over Alberta—and I am sure all over Saskatchewan and Manitoba too; some of it goes to exclusive Canadian National destinations, lumber yards where they sell cement. Some years ago I had to go to the board to attack those rates because I found that some of the rates from Exshaw to lumber yards on the Canadian National Railways were single-line rate plus as much as 14 or 15 cents more. That is a shocking state of affairs, and I took an application to the board. I did not have to pursue it and it never reached a hearing because the railways almost immediately filed a rate which brought that 13 and 14 cents down to 4 cents. So then we had the situation of cement moving from Exshaw to Vermilion, for instance, had the single-line rate—that is, the rate it would have been if Vermilion had been a Canadian Pacific destination, plus 4 cents. Even 4 cents, you know, was too much, but there was not any contest and I did not pursue it any further. I refer to the repeal of clause 341(4) as an example of freeing the railway, never mind the shipper. The draftsman does not attempt to say why this must be repealed; he just indicates in very simple and clear language what it needs, not why it was done. And then there is another section on page 22 that I refer to, which seems almost more incomprehensible because there is a provision that has been struck out, namely clause 61. The draftsman says at the bottom of the page opposite page 49:

This section permits the board to authorize special rates for specific shipments between points not being competitive points, to develop trade or to create business, or for the advantage of the public interest, if not otherwise contrary to the act.

That has been repealed, so perhaps I can be excused for what I say on page 22 of my brief:

“One might be excused for suggesting that there almost seems to be an animus in the meticulous care the draftsman has taken to see the railways free even from provisions to which they might wish to resort jointly for their own good and in the public interest”.

Now, gentlemen, I have only one more clause to talk about, namely, clause 387 (a) 387 (b) and 387 (c) relating to commission costing. I say on page 23:

The importance of the costing concepts and procedures to be set up by the commission cannot be overemphasized. The proposed subsidies for uneconomic branch lines, for export grain rates, and for passenger service deficits, the formula for minimum and maximum rate determination, in all these instances there must be the most accurate analysis possible of railway costs. The western and Atlantic provinces have spent a great deal of time and expended large sums of money in examining rail costs both in the decade of freight rate increases before the Board of Transport Commissioners, before the first and second tours of the royal commissions on transportation and before the MacPherson Royal Commission. The western and Atlantic Provinces legitimately represent the public interest in transportation. They are entitled to be heard by council and by cost

consultants in public hearings, before important and far-reaching decisions are made respecting the costing procedures to be established by the commission. We urge that amendments to clause 387 (a), (b) and (c) should be made to assure that right.

That is all I have to say with one exception.

There will appear before you on Thursday, Mr. Borts and Mr. Williams, and once more I go back to the request which we made over and over again that the discussions which we were having, these very gentlemen, Williams and Borts, were having with official economists of the Department of Transport be resumed. We were in the midst of them as you have been told, when this bill was introduced and these discussions came to an end. I urge the Committee to permit those discussions to be resumed, to delay any action on clause 336 until there has been a resumption of discussion between the officers of the Department of Transport and Mr. Borts and Mr. Williams. They will be here on Thursday. They could meet with the Department of Transport people immediately after their appearance: they could remain over and discuss it with them on Friday and that perhaps would be sufficient. I urge you gentlemen even at this late stage not to abandon completely the consequences of the imposition of these clauses without knowing from an examination of relative cost data just what it is going to do to maximum rate control. Thank you very much, gentlemen.

The CHAIRMAN: Following our usual procedure we will call upon Mr. Pickersgill.

Mr. PICKERSGILL: There are a few observations I would like to be permitted to make about Mr. Frawley's presentation, and I will make them in the same order in which he made the presentation itself. I think the first point I entered in my notes here was on costing techniques. I agree with Mr. Frawley—I have said this many times—since this Committee began its hearings, that it is of the utmost importance that before any changes are made in costing techniques by the new commission there should be full and public hearings at which all interested persons would have a full opportunity not merely to make presentations themselves but also to cross-examine shipping companies of all kinds, in particular the railways, of course, because they would be the main interest.

Perhaps I could deal at the same time with what was said on page 23 because it is to the same effect. I agree completely with that also, and if the Committee is not satisfied that we do ensure the right to be heard, I am quite prepared to entertain any amendment to those clauses to see that no doubt is left about that because that is certainly the intention.

Now, if I can say something very briefly about Mr. Frawley's references to pipe lines, I regret to say I cannot entirely agree with what he says about this clause. I do think that in an attempt to have a comprehensive transportation policy and to have the regulation of transportation as such, in so far as there is federal jurisdiction, entirely within the ambit of a single commission, it would be desirable now that we are doing this—I grant I do not think we would have introduced a separate bill for this purpose in 1956, but because we are enacting this legislation—it seems to me a sensible precaution to take.

Mr. Frawley was good enough to say that he had been away in Alberta and he had not had time to examine the amendments that have been proposed and



indeed accepted by the Committee to the bill, I think that when he has had a chance to do so, he will be satisfied something is going to be done about this; we are not prepared to accept the suggestion of the government of Alberta that we drop this altogether, and I would be very reluctant to do that, I confess. I think we have met most of the points. I think the essential point that Mr. Frawley made was met already in the original bill; the exemption clause on page 13 would be quite effective to make sure that any person who built a pipe line and intended to use it entirely for the transport of his own products where it was not a common carrier at all, would be totally exempt from the rate making provisions because it would be quite senseless to have it any other way, anyway. That would not mean of course that anyone could build an interprovincial pipe line without any regulation of the building of the pipe line, of course, because parliament has already made laws in that regard.

The really important point that Mr. Frawley made, it seems to me, about pipe lines is that one with which I really have to disagree because he suggested that the rate making and rate control of commodity pipe lines should not be under the commission because this commission would be railway oriented. Well, in the first place this commission is not to be railway oriented. The form of transport that is expanding most rapidly in this country is air transport, and the air transport board is equally to be englobed in the new commission with the Board of Transport Commissioners, and one of the reasons indeed the main reason, why I am advocating a single transport commission instead of these various commissions regulating the specific kinds of transport is precisely to avoid this orientation toward one form of transport and precisely to make sure that we have a body that is so constituted that it will, as far as government can and as far as regulation can and as far as public stimulus can, see that the Canadian people are served by the most efficient form of transport.

Now, it is our hope, of course, that if commodity pipe lines do become practical they will do exactly these things: transport certain kinds of goods more efficiently and more cheaply than the railways or anyone else; otherwise no one would want the business.

If the general objectives of clause 1 of the bill are followed by the commission, and I feel confident that they will be, I cannot believe that there is any likelihood of there being any kind of inhibition upon the development of the pipe lines; quite the contrary. Indeed, the pipe line may well provide for those parts of Canada which have not the advantages of the great lakes and the St. Lawrence system, particularly of western Canada, a form of competition that water transport does in the more easterly parts of the country. It may do the very things that I think all of us would like to see done.

I do hope that the Committee will pass this clause notwithstanding Mr. Frawley's eloquence—and I think his was the most eloquent and dramatic presentation that any witness has made; I congratulate him upon it and I only wish that I had a comparable capacity to paint pictures such as the ones he paints. I think we all recognize that he has devoted his life to this subject of transport. He is not only a great advocate but a great scholar. We have listened to his presentation with the greatest possible respect. I know I have and I am sorry that I cannot in every respect agree with him. He is also an advocate who has appeared before tribunals and he understands that advocates do not always agree. I am after all, and it is not surprising, an advocate of my bill.

With reference to the Motor Vehicle Transport Act, I do not think I really dissent at all from what Mr. Frawley has said, but I think it is a wise precaution to do it. He has mentioned that if we are going to do it we seem to be doing it in the most reasonable possible way. I do not think I should take any more time on that point.

On railway abandonments, I think perhaps that is the only point I need to say anything about. It is a question of the ground rules. I think the ground rules are pretty thoroughly set out in the new bill. We have made some amendments which Mr. Frawley may wish to look at. I think, judging from what he said, he would be reasonably satisfied when he has looked at them.

We have mentioned one specific point that he made and it relates also to passenger traffic. We have provided that there should be compulsory hearings on every aspect of this matter if desired by interested parties. I think that meets that situation.

Now, as to the question of the costs that would be taken into account in determining whether there are losses, of course there will be hearings on that. Any of the costs that the railways suggest, can be objected to, if anyone wants to go to the hearings and make an objection. I would gather that in the case of the abandonment of passenger service, since the line and everything else is going to exist anyway, that whether there is a loss under variable costs I would gather would be the point. In the case of the abandonment of a branch line, there would be an account taken of the variable costs plus the fixed costs attributed to that particular line and to that particular line only. Obviously, the railways are not going to apply for the abandonment of a line on which they are making their variable costs and which is contributing something to the whole system, unless their accountants have gone crazy.

I think there will always be a presumption that the railways will not apply for the abandonment of a line on which they are making money. If so, they should certainly get a new manager.

Mr. Frawley discussed the abandonment of what he described as the legislative enactment or the legislature translation of the rules which were in the common law with regard to common carriers. He did suggest that all present non-competitive rates should continue to be subject to the commission. Well, I would contend that that is the case. In fact, between the new clause 317 about which Mr. Frawley was not exactly complimentary, and the maximum rate formula, any shipper who has no effective and competitive alternative would have some kind of access to the new commission.

Since Mr. Frawley has been absent in Edmonton and not able to attend the meeting of the Committee, I have already indicated that I have agreed with several witnesses who feel that the new clause 317 is not adequate. I intend to propose tomorrow or Thursday a new draft which will, I think, go a long way to meet the representations that have been made on this subject and to preserve I hope the substance and the spirit of the common law.

I think I also said while Mr. Frawley was absent that I had gradually come to the conclusion that the new clause 317 is likely to be far more important and a far more effective protection not just for shippers but also for regions and provinces and areas than any maximum rate formula which could possibly apply. The reason I say this is that I have been educated a bit by the witnesses,

just as I am sure the rest of us have. I started out with the view that the maximum rate formula was going to be the most controversial thing in the present bill—perhaps it still is—and also that it was perhaps in a way the most important. I have come to the conclusion that that is not true. The new clause 317 will be far more important from the point of view of meeting the real problem. I say this for this reason, that we have maximum rates now in existence which are class rates.

Witness after witness has pointed out that very little traffic actually is carried under these class rates. Most of the so-called non-competitive traffic is carried under commodity rates. There are class rates for all these commodities which are higher than the commodity rates and they are not used. Of course, Mr. Frawley knows but perhaps a good many of us did not know before starting this Committee that those commodity rates were originally established by negotiation. They were not originally fixed by the board. The way they got to be frozen was because of the horizontal increases and then the rollback. They are not true maximum rates. In other words, what happened was that in the case of most bulk commodities there had been negotiation even though they were not competitive in earlier years, and rates had been established lower than the maximum, which suggests to my mind that any maximum rate formula that we would want to impose would not really meet this problem and the real way to meet this problem is—and I think Mr. Frawley was hinting at it all through his brief, certainly the government of Manitoba was—that we must have a more effective clause 317. I am very hopeful that I will be able to satisfy the Committee and the witnesses on that score. Therefore—this is just a purely verbal dissent—I do not think that Mr. Frawley is right in saying that clause 336 is any more the heart of the bill. I think clause 317 will prove to be.

Mr. CANTELON: We have an amendment to 317, that we stood at first, and then we carried it. Are you referring to this amendment, or are you making another one?

Mr. PICKERSGILL: No.

The CHAIRMAN: Clause 317 has been eliminated and a new 317 has been introduced dealing with a different subject.

Mr. PICKERSGILL: Yes, it will be a new clause 16.

Mr. CANTELON: Thank you.

Mr. PICKERSGILL: As I say, I did not feel it would be courteous to Mr. Frawley or to Mr. Lloyd to make this proposal at all. Indeed, I am still working on it; I think I am pretty well satisfied now with the wording in it, but I am still working on it. I wanted to hear both Mr. Frawley and Mr. Lloyd as I thought it would be a grave discourtesy to them to put my suggestions forward in a tentative form until I had heard them.

Now, I am quite troubled by one point that Mr. Frawley made several times and I think we ought to consider a little bit the implications of it. I refer to his objection to the drafting of the concept of net earnings. I find it rather difficult to understand precisely how that concept could be retained and reconciled with the basic concepts of this bill, namely, that we are asking the railways to live in a competitive environment. It does seem to me that the regulation of earnings has been based upon the concept of public utilities which are monopolies and it is a



proper concept in that context. If, however, we are going to carry out the central purpose of the railway sections of this bill, to tell the railways they must compete and merely to protect that segment of shippers for whom the railways still have a monopoly, I do not know how you determine the share of the net earnings.

I do not think that Mr. Frawley intends that the earnings in competitive business should be controlled. I do not know how you would determine, except by an artificial and fictitious concept, a fragment of net earnings as it would be attributable to the monopoly operations. It is something that perhaps could be done by a lot of jiggery pokery with figures—you can do almost anything, as several witnesses have said, with figures, if you use them in a certain way—but, to me, I do not see how you reconcile these two concepts. Either we say the railways are just a public utility; we regulate all their rates and we say they cannot earn more than a certain amount, or we will lower the rates, or we do what we are trying to do in this bill which is to eliminate regulation except where it is really necessary in monopoly situations. I do not know how you fit the net earnings proposition into that. I come back to that again on page 18—and I am taking this out of turn—because there is a reference there that Mr. Frawley made to some control of profits. The sentence reads:

For that reason there must be a definite relationship between what is permitted as a contribution above variable costs and the nature of the profit which it is desirable and acceptable that the railway should earn net after provision for all costs, variable and fixed.

This is a concept which I would not be altogether surprised—Mr. Lloyd is in the room and I am sure he will not take offence at my saying this—if Mr. Lloyd brought forward. I am a little surprised, however, that the representative of the government of Alberta—which is a government that I had always understood was the strongest supporter in our country of freedom of enterprise—should be suggesting that one particular kind of enterprise, which is told to compete, should have its profits controlled. I wonder if the same view would be taken of the oil and gas business in Alberta or agriculture in Alberta. I just raise the question and not just to score a debating point. It does seem to me that it is rather fundamental to the whole concept of the bill. If we are going to tell the railways to be competitive then, surely, they should be able to operate in the same climate of competition as others. The proper way then to protect those areas, where the railways are not competitive and where there is a monopoly, is surely by some other device than the control of profits. I just make that point because I cannot see how it could be fitted into the bill.

The other thing that troubles me very much about Mr. Frawley's presentation, is the reference he made on page 16 to captive shippers. He says in paragraph 2:

The Committee has heard it said repeatedly that if a shipper has market competition—and most shippers have—he is not captive within this section. This is a wholly untenable statement. There is not a word in the definition quoted which goes beyond carrier competition.

That is perfectly true, but I have never stated in any observation I have made to the Committee that if a shipper has market competition he is not a captive within this section. All I stated was that if he had market competition I

did not think he would be likely to declare himself a captive. I have never said that he could not do so if he wanted to. My view is, that any shipper who has no effective, competitive—taking the whole definition—mode of transport to turn to can ask to be declared a captive shipper if he wants to. However, I said that I did not think most of them would if they had market competition, but that is a very different thing from saying they could not. I wanted to make that distinction because it seems to me to be an important one.

Mr. Frawley read a quotation from volume 2 of the MacPherson Commission, at the bottom of page 16. I would just like to read the sentence before the one he read because I think it is important to read the two of them together. The sentence reads:

The Commission believes that the average degree of monopoly which the railways have today is not itself significant and would not itself justify elaborate and expensive rate regulating machinery.

It goes on to say:

Nevertheless we found evidence that for some rail movements the rates were many times higher than costs, indicating that a significant degree of monopoly still exists in at least a few commodity areas.

The second sentence was the one Mr. Frawley read. I thought that we had better look at them both because this comes to the very heart, I think, of such difference as I do have with the presentation Mr. Frawley has made. We are seeking to avoid regulation where it is not really necessary to protect those few—as the MacPherson Commission says—shippers, those few commodities where there is a significant monopoly. If we can avoid it, we do not want to have a whole mass of rate determinations or possible rate determinations in some cases, where, as the MacPherson Commission has pointed out, there is really no need for them. These things are very costly; they are very time consuming and they are bound to affect the capacity of the railways to compete effectively.

We do want to protect the person who is genuinely covered by the sentence read by Mr. Frawley. Of course about the 150 per cent above variable costs, I have explained a dozen times and I say again that I did not invent that; the government did not invent that; the MacPherson Commission did. I have not been sufficiently inventive as yet to invent another formula that I thought I would like that would be sufficiently impressive or sufficiently authoritative. As compared with Bill No. C-120, we have made a modification in this bill in the definition of captive shipper and we have made certain other modifications. The most important one, I think—and it is one Mr. Frawley did not allude to—is that the experience under this formula should be reviewed. Now, if the Committee should so desire, I am quite willing to reduce the period for this review, because I think some of the criticisms of this formula are fairly well justified. I think we ought to look at the experience and see. If we have a strengthened section 317 and a reduced period for examining it, we will probably meet all the real problems, at least I hope so.

Now, I do not like the idea of striking clause 336 out of the bill altogether, even if it is not entirely satisfactory. I gave an illustration the other day of one law that did not seem to be very necessary in one country because there had been no breaches of it for years. However, I thought of a better analogy—at

least I thought it was a better one—as Mr. Frawley was speaking today. There is a rule in the United Nations against aggression. Now if we had the kind of world where there were no more aggressions, I would still think the rule would be a good idea. This protection may be of too high a level. That is, of course, a real burden of Mr. Frawley's contention; that it is going to be at a level so high that it is not going to be resorted to by many shippers. But it is a point beyond which, if the railways attempt to go, a shipper can turn to the alternative. Even though we have strengthened clause 317 very much, even though it may be used there for a great deal more than section 336, I would really not like to take section 336 out.

Now, I am not going to take much time as Mr. Frawley did not either, on the other point he raised, namely the reasons why we are taking out of proposing to take out subclause (4) of clause 341. It does seem redundant in the alternative competitive climate. As for clause 61, all it does is to permit the railways to discriminate notwithstanding the existing laws. In the new climate they would be able to do that without having it expressly in the bill, so it also would appear to be redundant. I have already indicated my agreement with the sense of the observations on page 23.

Mr. BELL (*Saint John-Albert*): I do not wish to take Mr. Pickersgill's attention away from Mr. Frawley, but I would like to ask a couple of questions of Mr. Pickersgill which may be helpful. Do you think the Department of Transport should go ahead with the meeting of the professors as Mr. Frawley suggested?

Mr. PICKERSGILL: Well, we will be very glad of a meeting at any time and I wish they could come sooner. That brings up a point I would like to make again, and I hope I can make it as inoffensively as possible. I do take a little exception, as I did when the Manitoba brief was presented, to the failure of the governments of the western provinces to accept our suggestion that they should cite to us some typical captive shippers, with a view to looking at them. I do feel that I am entitled to draw attention to the fact that, with the exception of Wabush Mines and the Western Coal Operators, the concern about captive shippers that we have heard so far in all the deliberations of this Committee has not come from shippers. It was significant that that was the case even with the wheat pools in western Canada. It leads me to the conclusion that the apprehension about this subject is probably greater than the situation itself would seem to warrant. However, naturally I want to get all the light that I can and the only regret I have is that this presentation is coming so late. If there were any possibility of these gentlemen seeing my officials tomorrow, it would be even more agreeable to me, because then I could get a little advice from my officials in advance.

Mr. BELL (*Saint John-Albert*): Thank you, perhaps Mr. Frawley can rebut as questions are asked him. My second question is—and we were on this yesterday—will that map officially be part of the record?

Mr. PICKERSGILL: It has already been tabled. I would be very appreciative if, when we get into committee in the house on the bill, someone would ask me to table it there too. I think that would be the appropriate time to do it. It ought to be an official document not merely of the Committee but of parliament as well.



Mr. BELL (*Saint John-Albert*): I have another question arising out of what you said, Mr. Pickersgill. Did I understand you correctly that a meeting has been promised with the public, the shippers and others before any guide lines whatsoever are established with respect to costs and revenues?

Mr. PICKERSGILL: If this is not adequately provided for in the bill, we will see that it is before the bill is reported from the Committee.

Mr. CANTELON: I must say that is practically all I was going to ask the Minister, but it does not matter very much anyway. The fact that there are new amendments in the bill and that we are going to have a new one on section 317 makes it unnecessary for me to ask any questions on that. There was one very superficial question having to do with the 30,000 pound carloads. I believe I was under the impression, and perhaps Mr. Frawley knows this too, that this 30,000 pounds was arrived at merely because it was a convenient highway weight and it was put in for that reason.

Mr. FRAWLEY: I think you would find that in the MacPherson Report, Mr. Cantelon.

Mr. CANTELON: So that makes it still more fictitious when we apply it to rail transportation.

Mr. FRAWLEY: When we apply it to iron ore concentrates moving from Manitoba to Alberta.

Mr. CANTELON: With respect to commodity pipe lines, I notice that you think this should be limited to public carriers for hire and reward. I missed any comment Mr. Pickersgill may have made on that particular remark.

The CHAIRMAN: He disagreed with it, Mr. Cantelon.

Mr. CANTELON: Thank you. Well, I guess there is not much use saying anything about that since we know he disagreed. We probably will not get that changed in the bill.

There are no other questions I would like to ask.

The CHAIRMAN: Mr. Horner is not here. Mr. Olson?

Mr. OLSON: Mr. Chairman, I want to speak to some of the evidence which has been given to us by Mr. Frawley, and the remark made by Mr. Pickersgill that he was a little surprised to see the presentation of the province of Alberta being concerned about the maximum profit factor of the railways. I would like Mr. Pickersgill to know, as far as I am concerned, that there is a matter of competition involved here, and if you look at a map of Alberta you will see that we do not have any waterway to provide the kind of competition that will give real effect to putting the railways in a competitive position. As a matter of fact, with the exception of highway transport, as far as bulk commodities are concerned—and even there it is not very effective—the railways still have a virtual monopoly in transporting this kind of material or commodity to and from and inside the province of Alberta. As a matter of fact—

The CHAIRMAN: Are you asking questions, Mr. Olson, or making statements?

Mr. OLSON: Am I confined to simply asking questions?

The CHAIRMAN: Right now it is the questioning that we are interested in.

Mr. OLSON: The point I am getting at, Mr. Chairman, is that for steel moving from Hamilton—and you might be interested in this—to Edmonton they charge \$1.80 and for the same steel in the same kind of a car moving over the same route, in fact the very highest cost part of the route going over the mountains, which is not applicable to Edmonton, when that same carload gets to Vancouver it is \$1.05. I do not think we need any more substantial proof to bear out the fact that there is no effective competition for moving this kind of material to and from Alberta.

Now, Mr. Frawley, you talked about this matter of proving the public interest, and we hope by the time we get the new section 16 before us there may be some improvements in this right of appeal against a freight rate. At the present time can you envisage any way in which a shipper, who felt he was being discriminated against as far as a rate is concerned, could go about proving the public interest for his own purposes?

Mr. FRAWLEY: I think he is stopped before he starts. I will give you the example of a small food processor—I say small, but I do not need to over-emphasize the word “small”; he may be small today but very big next year because he is in Alberta—he has to prove public interest. You see, I am at a terrific disadvantage about Mr. Pickersgill’s views on section 317; what in the world is the connection between public interest and this man in southern Alberta complaining about his rate?

Mr. OLSON: You have had a lot of experience in appearing before the MacPherson Royal Commission and other royal commissions dealing with transportation and also the Board of Transport Commissioners. On the basis of that experience, how do you go about proving that the public interest suffers, whether it is the national interest, the provincial interest or the regional interest? Have there been any ground rules set down or any acceptable way of going about establishing that the public interest suffers?

Mr. FRAWLEY: No, Mr. Olson, because this has just been pulled out of the air. I am not familiar with this. Thank you for referring to my experience and, incidentally, I certainly thank Mr. Pickersgill for the kind things he said, but you do not bother about public interest. If you are complaining about a rate you make a case as to what your little factory or your little plant is doing and why this rate affects it. You do not prove any violation of public interest. You go before the Board of Transport Commissioners; that might work. But this has come out of the sky for the first time and puts down here, as I say, something that is insurmountable; something which we cannot even begin to prove.

Mr. PICKERSGILL: If Mr. Olson would permit me, this is one point I meant to make and forgot. It was never intended, of course, that appeals under section 317 should be limited just to shippers. There is no reason why the government of Alberta should not complain that a certain rate was not in the public interest.

Mr. FRAWLEY: I would expect that the government of Alberta would be taking up the instance of this shipper and that shipper, and it would just be the sum of the part. I do not quite know how we would get away from the obstacle of proving public interest.

Mr. PICKERSGILL: Suppose, for example, the government of Alberta was able to show, taking into account all reasonable factors, distance, and so on, that the

railways were setting a rate for a canning factory in Lethbridge which was seriously disadvantageous as compared with the rate to bring canned goods from eastern Canada or from Portage la Prairie. Would you not consider that was a matter that the Alberta government could argue was in the public interest to bring forward?

Mr. FRAWLEY: No. If I was sent to take care of the interests of the government of Alberta in that instance I would endeavour to show how that rate would compare—just as I would do now—where the prejudice was, and against whom was the prejudice. I would never feel I was drawn into this large, nebulous and vague concept called public interest, because what is public interest, Mr. Pickersgill? Is it the national public interest? This is a federal railway. Is it the national public interest or just provincial public interest? Somebody could say, well, this is a federal railway, you have to get your concept up into the federal realm. I think it is a highly impractical thing to put those words “public interest” in the bill without defining them. You could define them.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, may I ask what section you are talking about? I have been trying to find it for the last half hour?

Mr. OLSON: Section 317. The new one is 316, which we do not have as yet.

Mr. BELL (*Saint John-Albert*): The new section 316 is the one?

Mr. OLSON: I wonder, Mr. Chairman, if we could get some agreement here using this example pointed out by Mr. Pickersgill, where the rate from Hamilton to Edmonton for steel sheets is \$1.80 and with the same car, as I said, going nearly 1,000 miles farther to Vancouver it is \$1.05. Is this a prime example of the public interest of Alberta suffering because of a discriminatory rate, and would this be something which the commission is ready to hear?

Mr. FRAWLEY: Mr. Olson, I would certainly like to be told that I had to open up that nasty situation again, that we have to pay all of the Vancouver rates plus a backhaul, \$1.80 against \$1.05, but I am afraid I would be met with the fact that the Panama canal ran around to Vancouver and how many sheets and plates from the Chairman's constituency go through the Panama canal to get to Vancouver.

Mr. OLSON: I wonder if Mr. Pickersgill would like to comment on whether this would be a valid case for attempting to prove that the public interest of Alberta was suffering prejudicially?

Mr. PICKERSGILL: I think it would be just as valid under the new law as it is under the law that now exists which Mr. Frawley is suggesting we should keep.

My only answer to that is that if the unjust discrimination clause which Mr. Frawley wants kept in its present form does not protect Alberta, I do not think the new one will either. That is all he is asking us to do, to keep the law as it now is, and this is the situation which exists under the law as it now is. I do not think this particular situation is going to be corrected by the new law. While it is quite true, I think, that the Chairman's constituents do not send their steel to Vancouver very much through the Panama canal, the reason they do not is that the railways are allowed to meet that competition. If the railways put the rate to Vancouver a little higher it would be shipped by the Panama canal and the railways would lose the business. Now, maybe they should lose the business, I do not know.



Mr. OLSON: But at least the right to make this kind of representation is contained in the present law and now it will be removed. You do not need to condemn the law because you do not accept the judgment which was handed down by the board.

Mr. PICKERSGILL: I am not condemning either, Mr. Olson, all I am saying is that I do not think the bill would create a better situation than the one which now exists and which Mr. Frawley wants to retain, but I do not think it would create a worse one. That is all. The situation to which you and Mr. Frawley are referring is a situation that is really based on certain economic and geographical facts.

Mr. OLSON: Including discrimination.

Mr. PICKERSGILL: The law now says there must not be discrimination. What you are saying is that we should legislate geography out of existence. This is a concept which I would expect Mr. Schreyer to advocate rather than Mr. Olson, but it is a concept that could be introduced into transport as it is to some extent in respect of wheat. If we are going to generalize it it is quite obvious that we are going to give Mr. Sharp the problem of raising a lot more taxes.

Mr. OLSON: I would suggest there is another concept which could have been introduced in this bill, and that is that you do not pay more for a shorter haul than for a longer haul of the same commodity in like circumstances, but that is not there either.

Mr. PICKERSGILL: No, that is not there.

Mr. FRAWLEY: That is in the American freight rate structure, which has been denied to us in Alberta.

Mr. OLSON: It is unfortunate but it is not in here.

Mr. Frawley, I wonder if you had attempted to calculate the results of applying some of the maximum rate control which is in section 336, or have you been completely frustrated in the definition you have used for a captive shipper, in trying to find out what this maximum rate control would do for some of the captive shippers?

Mr. FRAWLEY: Mr. Olson, without endeavouring to work out anything myself, I felt it was in order and quite acceptable that I should take the figures which were worked out by the Canadian Manufacturers Association and that is why I set out in my brief what the Canadian Manufacturers Association stated. That indicates the relationship between the existing rates and the so-called protective rates which Mr. Sinclair spoke about. I hope that answers your question. I made no original calculations.

Mr. OLSON: Yes, but the reason I asked you this question is that I presume there are a number of shippers and receivers of shipping in Alberta who would be interested in what the maximum rate control is going to be, and for the benefit of them is there any way now, being denied the cost data, that you can really calculate what the possible result of this may be?

Mr. FRAWLEY: As a matter of fact, Mr. Olson, I think that the gentlemen who are coming here on Thursday do have some data of that sort for you. We did

not have the cost data but, using the Crow study co-efficients, we did work out some relationship, and they will tell you about those on Thursday.

Mr. OLSON: I pass for the time being.

Mr. HORNER (*Acadia*): Mr. Frawley, as you know we have given this bill extensive study and Mr. Pickersgill has agreed to make a number of amendments, but as yet he has not amended the two main clauses, 317 and 336, to the satisfaction of himself and the Committee. You suggest on Thursday we are going to hear experts—if I may use that word advisedly—dealing with section 336. Mr. Pickersgill now tells us that he is going to amend clause 317 again and hopes that it will satisfy the evidence which has been submitted to the Committee. How can we as a Committee, Mr. Frawley, ascertain through all this maze of amendments that we are coming out with something better than that with which we started? Take, for example, the CNR, who were one of the first to appear, they presented a brief on Bill No. C-231, although not in its amended form as we now see it, but how can we rejudge properly that what they suggested was good for the railroads in Bill No. C-231 is still good for the railroads or the country in this new amended form?

It seems to me—and you are a railroad expert and that is why I am asking you—as a layman serving on this Committee that we are being pushed too far too fast, without even the chance to get a clear look. We now have only two or three clauses left to pass in the bill. Clause 317 is going to be changed again. You have submitted a brief. How do we know that the changes brought to us on clause 317 are going to satisfy you and the railroads and everyone else when we have not even seen them?

Mr. FRAWLEY: Mr. Horner, certainly I have not seen them. The Chairman was kind enough to give me a whole sheaf of amendments to the bill, but if clause 317 has been amended it is quite impossible for me to say whether or not it is going to take care of the objections which I have made. If clause 336 is not being amended at all, I say take it out. I cannot repeat myself more than that. If there is no amendment in clause 336 then take it out.

Mr. HORNER (*Acadia*): Let us suppose that we take out clause 336, and clause 317 has been amended once, and Mr. Pickersgill, if I understood him correctly—

The CHAIRMAN: Mr. Horner, clause 317 will be replaced by a new clause dealing with something else. Clause 316 will be the new clause in the bill.

Mr. HORNER (*Acadia*): All right, clause 336 is out. Do you think if a new clause 316 was brought into effect—

Mr. PICKERSGILL: It is clause 16 of the bill which will amend section 317 of the law.

Mr. HORNER (*Acadia*): Well, clause 16 then. If clause 16 was put into the bill, which in some way grouped together some of the old sections of the Railway Act, 317 and 319, subsections (3) and (4), and possibly 320, 322, 323 and 324, would this then be a bill, in your estimation, worthy of this Committee passing if this new section 16 groups together some of the protections which have been eliminated so far in the bill under the sections you mentioned on page 12 of your brief?

Mr. FRAWLEY: Of course, Mr. Horner, I am in an absolutely impossible position. I can do nothing except comment on clause 317 as I see it in the bill and, if some major, far reaching amendment is proposed I should have an invitation to come back and discuss the new clause 317. I do not know whether that is in the cards.

Mr. HORNER (*Acadia*): What concerns me, Mr. Frawley, is that the bill may be changed so much that as we have heard in the briefs and as you suggested, you may want to come back and I am sure the railroads might want to come back.

Mr. FRAWLEY: Mr. Horner, may I interrupt? Eight provinces of Canada—I think I am the last one—have registered an objection to clauses 317 and 336. Now, there have been changes. Do you not think it would be in order to hear what those provinces have to say about the changes to clause 317?

Mr. HORNER (*Acadia*): This is exactly what I thought. Thank you, Mr. Frawley. I will not ask you any further questions.

Mr. Chairman, that is exactly what I thought and I wanted to put it before the Committee.

Mr. SCHREYER: Mr. Frawley, I refer you to page 20 of your brief, the last two paragraphs. You ask the Committee to propose amendments to clause 336 to get rid of the present formula contained in the bill. Are you proposing that the present formula be substituted by one which really varies with the kind or class of commodity shipped? In other words, there would be no standard formula at all. Is that what you are suggesting?

Mr. FRAWLEY: If I understand you correctly, Mr. Schreyer, that is exactly what I am suggesting. This rigid 150 per cent is built upon a false foundation, but just talking about the 150 per cent, in all instances it has to be 150 per cent; it cannot be 170 per cent or 250 per cent or 50 per cent. You must remember when maximum rate control was being placed before the Royal Commission on Transportation—and I may tell you that Alberta was the province which placed maximum rate control before the MacPherson Royal Commission through the evidence of Dr. Merrill Roberts of the University of Pittsburgh—there was no 150 per cent or any other rigid fixed amount, so I am saying, Mr. Schreyer, take out the 150 per cent and substitute such percentage as the commission determines would reflect a desired level of earnings.

Mr. SCHREYER: That is right. What about the 30,000 pound factor? That also should be substituted by one which varies with the volume or weight of the shipment.

Mr. FRAWLEY: My amendment, Mr. Schreyer, says in so many words to take out those fictitious variable costs of 30,000 pounds, this rigid 30,000 pounds, and substitute the actual, from 15,000 pounds to 180,000 pounds, or whatever these big cars are now using.

Mr. SCHREYER: Mr. Chairman, here is my second question. Mr. Frawley, when you made reference in paragraph (b) to a formula that would reflect the desired level of railway net earnings—this is the passage that Mr. Pickersgill thinks perhaps I should be raising and not a representative from the province of Alberta—what range—

Mr. PICKERSGILL: I just said I would have been less surprised if you had.



Mr. SCHREYER: Mr. Frawley, when you make this suggestion what range of level of net earnings does the province of Alberta have in mind?

Mr. FRAWLEY: Mr. Schreyer, I thank you for the opportunity of commenting on the fun-poking of my friend Mr. Pickersgill, in which he took some exception to the fact that I should be here advocating some other political philosophy and not the one set down on page 18. Mr. Pickersgill forgets that this is a contribution to overhead determined by the railways, and all I am saying is that the contributions to fixed costs must provide the railway with the funds to pay all costs other than variable costs, including a profit on investment. Nobody can take exception to that. There are just two kinds of costs; the variable or out-of-pocket, and the others, fixed, constant, overhead, whatever you like. The railways say we get our variable cost. Let me emphasize that; every rate pays its variable cost. Let nobody make a suggestion to the contrary. But when you come to add on to that, then they have to add sufficient to get everything, including the return on investment. The difficulty and the injustice is that it is not done evenly and justly. So the long haul shipper on bulk commodities takes a big whack of contribution to overhead. The man who is running up and down between Hamilton and Montreal just gets cost plus a paper thin contribution to overhead. That is what is wrong.

Mr. SCHREYER: Mr. Frawley, the concept of net earnings can vary with the context. Now, in this particular context when you refer to net earnings do you have in mind net earnings for the railways on type of shipment or net earnings on an over-all basis?

Mr. FRAWLEY: Well, as a matter of fact it comes, you see, from the individual shipment because when they say that this rate must pay variable cost plus "X" per cent, then that shipment is making a contribution to net profit. There is no use running away from net profit; it is there among the other legitimate fixed costs. What I have said by way of an interpolation—it is not in my brief—is that this bill should not entirely abandon the concept that it does not matter whether the Canadian Pacific earns 2 per cent or 20 per cent on its net investment. If that is heresy then there it is, it is heresy. I say that this board should be concerned—and this committee, which is more important—whether or not the Canadian Pacific Railway Company is going to be set free to earn 2 per cent or 20 per cent.

Mr. PICKERSGILL: I wonder if Mr. Schreyer would permit me to ask in slightly different words what I think is his question. When Mr. Frawley suggests a desired level of railway net earnings, does he mean the total earnings of the Canadian Pacific Railway or does he mean only the earnings on their monopoly traffic? It would make a tremendous difference.

Mr. FRAWLEY: I say that the contribution which must be added to variable cost must not be "X" minus or "X" plus per cent, but it must be a movable percentage fixed by the commission which would have in mind the desired net earnings of the corporation as a complete enterprise.

Mr. PICKERSGILL: In other words, if I might just pursue this question, this is the most substantial single recommendation in the whole Alberta brief. I want to understand what it really means. It means that we would say to a commission, which is a quasi court and not responsible for its decisions to parliament, that it

could determine what this factor should be in a somewhat arbitrary manner, having regard only to some concept of what it thought the total earnings of the Canadian Pacific Railway should be. Would this not be—if I am misinterpreting, Mr. Frawley, I would like you to correct me—a much more uncertain and a much more incalculable thing than a fixed percentage? At least the shipper would know what he was talking about with the fixed percentage.

Mr. FRAWLEY: Mr. Minister, it is no different from what the Board of Transport Commissioners did during the revenue cases when they arrived at the need which the railways had established. They went before the board and they established need, and that was just translated into a percentage increase. In that need there were all of these fixed costs, including a return on investment. So, I am not advocating anything different or any innovation in my recommendation other than what it was prior to 1958. Of course, it seems to be completely unacceptable that we should go back to 1958, and the desire to free the railways is so paramount that we must turn our backs on everything the board did in 1958.

Mr. PICKERSGILL: May I just ask you a question. Is it not true that in 1958 a horizontal increase was to be determined to apply to all non-competitive rates? You are now suggesting that the same procedure should be followed capriciously in the case of people who choose, as you frankly say, and I agree with this, that no one should be considered a captive shipper unless he chooses to be, but you are saying that that group of people should have a principle applied to their rates that is not applied to any other rates. Now, surely that fundamentally is a different kind of situation. If you have the whole range of the non-competitive rates regulated, then you determine this concept over a very large part of the whole of the railway operations, but if you take the individual shippers, apart from wheat and possibly potash one day, which are a fragment of the total railway operations, it is surely not large enough that any significant determination could be made of what this element of earnings ought to be.

The CHAIRMAN: Mr. Schreyer has one last question, and then Mr. Bell.

Mr. SCHREYER: My last question is simply to ask Mr. Frawley for further clarification on the intent of paragraph (b), which we have been discussing for the last few minutes. Is it the intention of this paragraph that the formula should reflect the desired level of railway net earnings on that portion of their traffic that has to do with non-competitive commodity shipments, class shipments, and so on?

Mr. FRAWLEY: No, I think it would be very difficult to try to separate this and say that we will allow you to earn something on your competitive traffic, we will allow you to earn something more or less on your non-competitive traffic. I am talking there about what to substitute for 150 per cent. What you are endeavouring to do is to bring about—and I go back to what the MacPherson commission said—an equitable share of railway fixed costs. That is the purpose of adding the 150 per cent, and I cannot put it to you, Mr. Schreyer, any better than that. My amendment suggests, as a substitute for 150 per cent, such an amount, whatever it is, that would fairly distribute these fixed costs and not load some traffic while letting other traffic, because of economic conditions, go scot-free.

Mr. SCHREYER: Mr. Chairman, that does clarify the matter in my mind. One supplementary question. When you make reference to a desired level of net earnings on the railways, who is to determine what is desirable? Is it within the discretionary power of the commission or is this for parliament to lay down? You do not really make this clear.

Mr. FRAWLEY: Mr. Schreyer, you could substitute "acceptable" for "desired". Just whatever seems to be acceptable in the administration of the business of the commission.

Mr. SCHREYER: As determined by whom?

Mr. FRAWLEY: By the commission. That would retain some control. The choice you have is no control at all or control by the commission. I would rather accept some control by the commission than no control at all.

The CHAIRMAN: I find it also very difficult to understand. I think that is still leaving it up in the air. That is my own feeling.

Mr. SCHREYER: Without any range or guide lines laid down by parliament for the commission?

Mr. FRAWLEY: Do you say should there be or will there be?

Mr. SCHREYER: Ought there be in your opinion?

Mr. FRAWLEY: I would have thought that the commission if it wished, because it has large powers to make regulations and to go into all sorts of economic matters and situations, could devise, after hearing argument, some guide lines of the kind you are speaking about.

The CHAIRMAN: Mr. Bell, you had a question?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I have three now.

The CHAIRMAN: Well, then I had better call on Mr. Rock, because this is your third time around.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, a question of privilege. I have not asked any questions of Mr. Frawley this morning.

Mr. Rock: I did not say that you had.

The CHAIRMAN: Mr. Rock, would you please ask your questions and stop arguing across the floor.

Mr. Rock: If he has the privilege of saying such a thing I have the privilege of answering it.

The CHAIRMAN: Mr. Rock, the remark Mr. Bell made was to the Chair, not to you, so would you ask your questions, please. Mr. Rock, would you please ask your questions and, Mr. Bell, please stop talking across the floor.

Mr. Rock: Mr. Frawley, I am also concerned about this section. Do you agree that the return on investment—I do not know why the Chairman is shaking his head this way. I have the right as a Liberal—

The CHAIRMAN: Mr. Rock, please ask your questions. I am not referring to you. I should hope that the Chair can make whatever expressions it wishes to make and not have it taken as pointing out any member of this Committee.



Mr. Rock: Well, I will tell you this, Mr. Chairman, I wish to have the same privilege as the Opposition in this Committee.

The CHAIRMAN: Well you are, Mr. Rock, you are being called upon, so please confine your remarks to the questions.

Mr. Rock: You do not have to shake your head in a negative manner when I am asking a question.

The CHAIRMAN: Mr. Rock, if you must know, I am making some comments to Mr. Bell. Will you please ask your questions or I will move to someone else.

Mr. Rock: Mr. Frawley, I understand from you that the return on investment is equal to the cost of money, and this is part of the variable cost.

Mr. FRAWLEY: No, part of the fixed cost.

Mr. Rock: It is part of the fixed cost.

Mr. FRAWLEY: The return on investment.

Mr. Rock: Then, on top of that you have the variable cost and on top of that they want to put 150 per cent.

Mr. FRAWLEY: The variable costs are at the bottom and then they want to put 150 per cent on top of these fictitious costs.

Mr. Rock: Now, in the cost of money is there not then the return on investment, which is actually a profit indirectly?

Mr. FRAWLEY: Well, the matter of the cost of money came up because the Canadian Pacific Railway Company wanted to have an allowance given under the heading of cost of money when they generated all the money within the system. They still wanted a cost of money return on this just as if they had gone out and borrowed it on the open market. They did not borrow any money, they generated it all within the system. That is how the argument came up on cost of money. When I am talking about rate of return and return on investments, I am talking about one of those fixed costs which are above the line, after you have determined your variable costs either with or without cost of money.

Mr. Rock: If a person is a shareholder in any company and he is receiving a dividend, is it not part of the profit of that company?

Mr. FRAWLEY: Of course, those are the fixed costs.

Mr. Rock: The return on investment to the shareholders, in which they are adding in their fixed costs, as you say, a certain percentage as the cost of money for the return on the investments, is this not actually adding in advance to the fixed costs a profit on the investment, a guaranteed return to the shareholders?

Mr. FRAWLEY: I am not clear that I follow you, Mr. Rock. I know that there are only two kinds of cost, variable and fixed. Variable costs are the out-of-pocket costs which, I think, the Canadian Pacific have put forward, and they should include the cost of money. Over and above that, after you have arrived at your variable cost—

Mr. Rock: Could you repeat that? In the variable costs they what—

Mr. FRAWLEY: They have claimed cost of money as an item in variable cost.

Mr. Rock: Yes, I know they do that when they appear in front of the Board of Transport Commissioners for Canada. That is why I asked.

Mr. FRAWLEY: And then over and above that you just have one other kind of cost; constant cost, fixed cost or overhead cost. Now, in that second group of costs, which are anything but out-of-pocket costs, you must find the interest on their bonds and everything else, including the profits. Certainly in this day and age there must be included enough to give them a profit.

Mr. ROCK: Do you think within that they also include in advance, in this cost of money, this portion of profit? I would like to have it very clear whether you feel that the CPR, when they submit their cost of money—I do not think you ever see a return on investment but I think it is included in their cost of money—do you feel that in that cost of money there is a percentage which is actually a profit to the shareholders? They are actually asking in advance that this profit—

Mr. FRAWLEY: Mr. Rock, as I conceive the cost of money it is an out-of-pocket expense. If you borrow money and have to pay for it, then that is a disbursement, that is an actual out-of-pocket cost. That is not what I am talking about when I am talking about net return on investment; that is included in the cost above the line, after you have determined the fixed or variable cost.

The CHAIRMAN: The cost of money is the interest they pay for borrowing it.

Mr. ROCK: Mr. Chairman, I just came back from the commuter service hearings in Montreal and their economists stated that 70 per cent—I believe I am right on this—of it is the percentage given to the other cost of money. Not the cost of money of actually borrowing from banks or borrowing from a finance company or a trust company, it is more or less the cost you mentioned of investment in the company, and this year you have added this to the variable cost. You always attempt to add this to the variable cost. This is why I questioned him at the time whether they are actually entering it as a profit figure because this is what I think it is. They do not consider it that but it does equal that. If we are also going to handle here some of this 150 per cent, I do not know where we are going if it is the way I understand it.

Mr. FRAWLEY: Mr. Rock, may I say that I am endeavouring to do the very best I can to answer your question, but if you can be here on Thursday and you ask George Borts those questions you will get an answer that will go beyond any question. He will tell you about the cost of money.

Mr. ROCK: What is his name?

Mr. FRAWLEY: George Borts. He is coming to present a joint brief on behalf of several provinces.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, Mr. Rock asked my question on this cost of money. I do feel that there is an element of a variable nature in this cost of money in the formula that the CPR proposes. It is akin to the suggestion Mr. Frawley makes of a measure on their return of investment, and while I do not philosophically agree that there should be limits as proposed, I do think the CPR themselves get into this area when they propose a variable formula on their cost of money even though there certainly is a difference.

I was going to urge in agreeing with Mr. Horner, that there be a greater meeting of the minds between the provinces on this legislation before it finally goes through the House. I was wondering if Mr. Frawley would agree to study

these new amendments and in some way make his thoughts known about them before we finally have to deal with this bill in the House. I realize it has been difficult for him, for a lot of reasons, but we certainly would like to know, even if there is full disagreement, what the provinces think about the new proposals.

Mr. FRAWLEY: I agree, Mr. Bell, and I am only one of several. I think it would be interesting to get the views of the Atlantic provinces and the Western provinces and British Columbia with respect to this—everybody who takes exception to clause 317. I think it would be interesting to know. I am quite willing to do my share and to convey those views to the Committee.

Mr. BELL (*Saint John-Albert*): In this matter of railway costing have you any suggestion whereby we might get into the subject, short of opening up this whole matter? Could we deal with certain commodities on an experimental basis, or do we have to open up the whole matter of railway costing, with the disclosures that would be necessary and the possible effect on railway competitive business?

Mr. FRAWLEY: Well, Mr. Bell, if I may say what I said a moment ago to Mr. Rock—and you know me well enough to realize that I am not endeavouring to get out of anything—George Borts, who is such a much more knowledgeable man than I am, went through the Crowsnest costs, and he will talk to you intelligently and precisely about costs and what should be done about them, and the kind of costs he thinks he should get. He will say in his brief that the lack of cost data has prevented a meaningful assessment of this clause. Ask him why he says that, and he will have the answers.

Mr. BELL (*Saint John-Albert*): We are certainly anticipating Thursday with great eagerness.

With respect to clause 336, do I take it that you are almost proposing that we take out the descriptive words that are used—"effective" and "competitive" and would you agree that it might be better, even though we do not like the section in its entirety, to say "any" shipper and leave out the descriptive words. With some guidelines there might be fairer, and then we could get around the definitions which you are worrying about. I might say that I worry about the use of this word "effective." I was afraid of it when it was brought into "effective demand" on our passenger inquiries. It was a nightmare when I saw the word "effective" brought in here again in clause 336.

Mr. FRAWLEY: Mr. Bell, as a matter of fact, what you are saying indicates that the way you are thinking about it is not very different from the way I am thinking about it. I would not like to strike out the word "effective" because, thanks to the word "effective", I have satisfied myself, from quotations from the MacPherson Report, that "any" shipper—and I go back to "any" shipper—who feels that his contribution to overhead is excessive is a candidate for captive status. This is regardless of whether or not he has, as Mr. Macaluso's clients have, a highway going down one side of him and a railway going down the other. Nevertheless, if the man in the centre, on the rail, by his rate is contributing too much to overhead then we come back to the word "any" shipper.

I think it would be a little dangerous, Mr. Bell, just to strike out the words, "alternative," "effective" and "competitive" and simply say that "any" shipper shall be entitled; but there is a great deal in what you say, because that was the



concept of the MacPherson Report—self-declaration of captivity. I say that and it cannot be challenged. It is in the report; it is the heart of the report.

The CHAIRMAN: It is surely still in the bill.

Mr. FRAWLEY: Yes; thanks to the use of the word “effective” we have come around to the fact—Mr. Pickersgill is quite right when he says it—that now any shipper who feels that his rate is excessive can apply; but the difficulty is that after he applies he is a voice crying in the wilderness because of the 30,000 pounds and the 150 per cent.

An hon. MEMBER: Which comes from the report of the MacPherson Royal Commission.

Mr. FRAWLEY: The 30,000 pounds? Yes, I have to admit that that little truckload of iron-ore from—

An hon. MEMBER: That was a long while ago.

Mr. FRAWLEY: The 150 per cent. You will find in the MacPherson Report that the 150 per cent was designed—and it says this in so many words—not unduly to interfere with rail revenue. That is what they said about it.

Mr. OLSON: Mr. Chairman, I have one question.

Mr. Frawley, as I read the bill before it was amended and after it was amended, the commission does not have the authority to set any rate at all other than what is provided in clause 336 and for lcl in clause 44, section 317, which is found on page 33. It says that they do have the authority to set a toll for shipments of less than 5,000 pounds.

The question I want to ask you is perhaps a hypothetical question, but I think it will be very real within a couple of days. If the new clause 16 which, I understand, is going to deal with discrimination and the right of appeal, provides for both an appeal and for authority for the commission to set a rate, would this satisfy the province of Alberta about having a place at which to make their representations for rates?

Mr. FRAWLEY: It is very difficult. You speak about an appeal. That would be an appeal to whom? The only appeal I know under the Railway Act is to the governor in council.

Mr. OLSON: If I understand it correctly, when we get clause 16 there will be the right of appeal to the commission.

Mr. FRAWLEY: It is not an appeal; it is just an application to the commission. Where does this word—

Mr. PICKERSGILL: I think, perhaps, you both mean the same thing. We have been calling it the appeal clause, but it is not an appeal in the sense of an appeal from the determination of one court to another. What it is is an application to the commission to set aside a rate fixed by the railway and to put another rate in its place.

Mr. OLSON: Well, that is exactly what I am coming to. There is no provision in the bill, even as it is amended to date, that gives the commission authority to set a rate other than in the two instances which I have pointed out. If the commission had the discretionary authority, if you like, to set a rate and substi-

tute it for a rate which has been set by the railway, would this, in fact, meet many of the objections you have to applying the formula under clause 336 and so on?

Mr. FRAWLEY: Only if my application could be based upon a complaint that the rate of which I was complaining did not provide for an equitable share of railway fixed costs. Now, if I can ground my application on that, then I have something which clause 336 should give me but does not at the moment.

Mr. OLSON: Well, clause 16 may be flexible enough to give the commission that authority. Would that then meet your objections?

Mr. FRAWLEY: Mr. Olson, I—

Mr. OLSON: I realize it is very difficult because you have not seen—

Mr. FRAWLEY: I know it is difficult. Let us come back to what Mr. Bell said. It is so serious and so difficult that, with great respect—and I can speak only for Alberta in any event—it is rather unfair to put to me now, “Well, if clause 16 says this what do you think about it.” You had better ask me what I think about clause 16 after I see it in the bill.

Mr. OLSON: The reason I ask you now, Mr. Frawley, is that I thought it might be helpful to Mr. Pickersgill in finalizing the drafting of this clause when he brings it in on Thursday.

Mr. FRAWLEY: Well, that is a different aspect. I would appeal to Mr. Pickersgill to put something in clause 16 which will allow me to go to the commission and ask that there be some regulation of the contribution over variable costs which rates must pay; because that is what we suffered from all during the period of revenues cases from 1948 to 1958, and that is what we are going to suffer from—and there is no mistake about it all—if this clause 336 stays as it is, unless you have something under clause 317 which is just a miracle.

Mr. OLSON: Mr. Chairman, I have just one final question: If that was in the new clause 16 the bill would really be a better bill without clause 336, would it not?

Mr. FRAWLEY: Oh, yes.

Mr. DEACHMAN: Mr. Chairman, I just have one question. I would like to preface my question by saying that we have had many hearings and have heard many witnesses who have submitted amendments. These amendments have been given to us in a convenient form in a digest which we can refer to. Many of these amendments have been accepted by the department and by Mr. Pickersgill and have been included in redrafts of the bill. I think the work of the Committee in the hearing of these witnesses has been effective and, contrary to Mr. Horner, I do not think it has confused the issue. I think it has clarified the bill and improved it in many ways.

The point I want to make to you, Mr. Frawley, is this: Very able people such as yourself have appeared before the Committee and made suggestions for changes. If we had made these changes and then had called these people back to ask if those changes were suitable to them, we would have found ourselves in an endless procedure in this Committee, and we would never have finished our

hearings and we would never bring a bill before the House. What I want to submit to you is that this bill, which came first in rough form, has had a great deal of very effective work done on it by this Committee. It is emerging as a good bill. This is partly because of the willingness of Mr. Pickersgill and the department to recognize logical and reasonable amendments to the bill, and partly by the very reasonable argument brought by such able men as yourself before this Committee. I submit to you again that you are asking for an impossible procedure if you expect us to call people back again and again to find out if now, after redrafting the bill, it is suitable. We would never be out of here, sir.

Mr. FRAWLEY: Mr. Deachman, you will not find me disagreeing with that at all. All I am saying is that it is not only unfair, but impossible, for me to answer questions such as have been posed to me: "If Clause 16 says this, and says this, will that satisfy you."

The CHAIRMAN: Mr. Frawley, I quite agree with you. Mr. Horner had brought this up before. We have mentioned that it was an unfair question. However, I thought I would at least let you answer it at this time.

Are there any further questions? If there are no further questions I would like to thank Mr. Frawley and Mr. Telford for being with us. Thank you, Mr. Frawley, for your lucid presentation for the province of Alberta.

Before we adjourn I would like to bring to the attention of the Committee that we have the submission of Mr. Woodrow S. Lloyd, Leader of the Opposition for the province of Saskatchewan. I do not think it would be fair to Mr. Lloyd to call him now since we would be adjourning at one o'clock anyhow.

We will reassemble at 3.30 p.m. so that we might be finished by six o'clock. At that time we will hear Mr. Lloyd's brief.

#### AFTERNOON SITTING

*(Recorded by Electronic Apparatus)*

TUESDAY, November 22, 1966.

The CHAIRMAN: Gentlemen, we have a quorum.

We have before us this afternoon a brief submitted by Mr. Woodrow S. Lloyd, Leader of the Opposition of the province of Saskatchewan. With him is Mr. John S. Burton, Research Assistant to Mr. Lloyd.

Before we proceed I would ask for a motion to print the brief of the province of Alberta and the brief of Mr. Lloyd as appendices to the minutes of our meeting today.

Mr. SOUTHAM: I so move.

Mr. ANDRAS: I will second that.

Motion carried.

Mr. Lloyd will read from a summary statement, touching on the highlights of his main brief.

I would also ask for a motion to table two documents which accompany the brief of Mr. Lloyd. One is entitled "Rail Line Abandonment and Abandonment



Applications to September 1, 1966," and the other "Non-guaranteed Lines. Prairie Rail Network for Saskatchewan". I will just table these.

Mr. CANTELON: I so move.

Mr. PASCOE: I will second that.

Motion carried.

Mr. LLOYD: Mr. Chairman, Mrs. Rideout and gentlemen, I am appearing this afternoon on behalf of my colleagues in the legislature in Saskatchewan. We recognize and welcome Bill C-231 as a distinct advance over earlier attempts to develop a new national transportation policy. I know, too, that some amendments have already been offered to the original bill, and it may be that in some cases I am asking for things which it has already indicated will be presented to the Committee or to the House at a later date.

In Canada transportation accounts for a greater share of the gross national product than in any other country. It is, in its own right, then an important part of our national economy; more than that, it is a particularly vital instrument of development—a key tool in promoting Canadian growth and the welfare of the Canadian people.

I may say that we are not unmindful of the contribution of other modes of transportation, but we have restricted ourselves in these comments almost entirely to railways.

In Saskatchewan, because of our need to move volume production by rail to distant markets and ports of export and because of our need to bring in much production equipment, we are acutely conscious of the need for an efficient and rational transportation system. We are particularly concerned, then, with any change that may add further disadvantages to those imposed by geography.

One principal concern is that the proposed approach to the setting of freight rates may be detrimental to the interest of the people of Saskatchewan. A second is that the proposed procedures respecting rail line abandonment may not ensure an adequate weighing of many social and economic factors which are not directly related to the balance sheet of the railways.

I would be more confident about Bill C-231 if it more clearly established the concept that a transportation system should be built, maintained and improved to meet broad social and economic needs. Commercial viability—the profit and loss accounts of the owners—is of importance, but it is secondary. The effect on the balance sheet of the whole nation may be different from the effect of that on a railway corporation.

Thus, transportation services cannot properly be considered within the limits of a single corporation, or a group of corporations. They cannot be judged on economic factors alone. Transportation services must be shaped to meet the needs and aspirations of people in the broad regions of a vast country. It is here that action and relevant control by the Government of Canada is essential.

The problem is not one of maintaining the status quo. The developing technology of transportation not only dictates change, but indeed may offer opportunities for improving services at a lower cost. Needs, too, change and demand new approaches; but the dislocations of change and the availability and costs of alternatives should determine the pace and the responsibility.

A factor of considerable importance in current considerations is the federal government's statement of policy issued on September 12, 1966. This established the rail network in the Prairie Provinces, which the railways will not be permitted to abandon prior to January 1, 1975. In many respects this announcement been welcomed. It did provide assurance of continued operation, at least for a limited period, of some lines where abandonment applications had been filed. However, there are some aspects of this policy statement which require further examination, and, in particular, we recommend, first that, considering the obligation placed on the proposed commission to conduct regional studies of rail transportation needs, the scope of the commission's authority to alter the government's guaranteed Prairie rail network be clarified; secondly, that the bases for applying the measurement of 50,000 bushels of grain per mile and for determining which lines were guaranteed be made public.

I am mindful of the fact here that some lines, on which the figure was less than 50,000 bushels of grain per mile, were indeed protected, but, at the same time, there are other lines, on which at some times the figure of 50,000 is exceeded, which have been left unprotected. Thirdly, we recommend that, if the above measurement is to be applied, consideration be given to evidence that the long term trend in grain shipments is moving upwards.

One obvious effect of rail line abandonment is to increase the distance of many farmers from markets. This added distance in some areas will be 25 or 30 miles. Moreover, there are possible serious secondary effects. For instance, the abandonment of the Canadian National Railway Aberdeen-to-Melfort line, which is not protected, will be detrimental to shipments via the Hudson Bay route to the port of Churchill. Grain rates to Churchill along this line are two to three cents per hundredweight less than to the Lakehead. I note that in the Manitoba brief they have expressed other concerns there about over-all control of Churchill rates. I urge railway planning which will encourage, not handicap, the use of the Hudson Bay route.

Bill C-231 provides for procedures prior to rail line abandonment. It establishes the principle that the criteria for abandonment shall be indeed more than the financial considerations of the railways. These are a marked improvement over previous proposals; however, we do urge some further improvement. In particular, (1) that the bill clearly provide that all pending and future applications for abandonment will be determined under the provisions of the new act, not under the present railway act; (2) that the commission be required to consider all applications for abandonment, with minor exceptions such as lines which are clearly only spur lines, on the area basis; (3) that public hearings on an area basis be mandatory in respect to all applications; (4) that the wording of 314 c (1) be carefully reviewed to remove any implication that the commission has discretion only as to the timing of abandonment with respect to lines found likely to continue to be uneconomic; (5) that the criteria to be applied in considering applications for abandonment as set out in sub-section 314 c (3) include full consideration of social costs, for example, community services, as well as economic costs, and include adequate recognition to resulting increases in production costs for farmers. The pressure that such increases may add to the indiscriminate movement of people out of agricultural production deserves consideration; (6) that the committee consider ways and means of strengthening the commission's powers to accomplish railway rationalization under section

314 (d); (7) that the Committee consider the question of compensation for losses from abandonment to owners of rail type investments. Possible methods of reimbursing provincial agencies for added costs resulting from abandonment should be explored; (8) that where rail lines are abandoned, rights of way and associated railway lands revert to the province.

Turning now to freight rates, there is a considerable body of opinion that question the proposition that free market competition in freight rates will necessarily protect the public interest. The fact is that the railways enjoy a considerable degree of monopoly on the Prairies. We share the Wheat Pool's view as expressed in their brief—and I quote:

"The farmers of Western Canada remain unsure about the provisions of Bill C-231 which have to do with railway freedom in freight rate making and the matter of unjust discrimination and undue preference. Our previous experience has confirmed us in the view that the first to feel the pinch under the new found rate making freedom will be those in the Prairie region."

Governments today are turning anxious eyes to production costs and production efficiencies. Since transportation constitutes such a significant portion of Canada's gross national product, it seems unrealistic to remove these expenditures from public supervision to the extent contemplated in Bill C-231. The need for regional balance in development, the possibility that the railways may continue to take advantage of a monopolistic condition in parts of the Prairies, the importance of transportation to Canada, all argue the case for public supervision of rate-making. To shift rate-making decisions from public hands into the hands of corporate interests to the extent proposed in this bill, will contribute, I think, to a growing rather than a diminishing spread in the distribution of economic wealth in Canada.

For these reasons I recommend (1), that in view of the monopoly position of the railways, particularly on the Prairies, the new legislation make provision for over-riding public control of all freight rates; (2), that until such time as the commission establishes a maximum rate under clause 336 of the bill, section 317 of the Railway Act be retained to provide some protection to captive shippers; (3), that the committee give further study to (a) the effectiveness for the small shipper of the opportunity provided for redress under subclause 317 (1), and (b) that the committee give further study to the procedures for establishing rates for captive shippers under subclause 336 (2), in particular, the provision whereby such rates may be fixed at 250 per cent of variable cost needs scrutiny; (4), that the committee consider further modifying the rigid standards applied in calculating variable costs when determining rates for captive shippers; and (5), that the legislation provide for review, within three years, of clauses relating to rate controls and appeals.

The Crowsnest Pass rates: Attempts have been made by the railways in the past to demonstrate that the Crowsnest Pass rates were the cause of much of the difficulties. Indications are, however, that increased grain movement in recent years, bringing with it increased profitability, has changed the outlook considerably. The data set out on page 16 of the brief indicates that there is a long-run growth pattern in grain production on the Prairies. There is every reason to expect that this trend will continue. I share the view of those who have said that



the Crowsnest Pass rates have not yet been shown to be uneconomical. The proposed study of the Crowsnest Pass rates should be comprehensive in its scope.

I therefore urge the committee to consider amendments to ensure that any study of the Crowsnest Pass rates will: (1), provide opportunities for interested parties to present their views; and (2), give full consideration to the compensation and grants awarded to the Canadian Pacific Railway as they relate to the western lines and the Crowsnest Pass rates.

In considering the matter of passenger services, I wish to emphasize that the success of passenger operations is strongly influenced by the desire of the railways to be in the business and to make a success of it, and we have not been unduly impressed with the Canadian Pacific Railway's desire in that way. The committee has already made an exhaustive investigation of the adequacy of Canadian Pacific Railway's passenger service and has made some very welcome proposals. Bill C-231 can assist in establishing the present passenger operation. It is to be hoped that a continuing review of passenger services will be provided for.

The facts of Canadian geography make transportation a key factor in the economy. In addition, the structure of the Canadian nation today is such that communications and transportation have many over-riding social and political implications. The need for bulk transportation facilities necessitates special attention to rail facilities in many parts of Canada. For Saskatchewan, the adequacy of these facilities is essential if the province is to continue to make its full contribution to the national economy.

A first principle in the provision for transport resources is that they should be maintained or improved to meet broad social needs. A second principle is that socially desirable but perhaps unprofitable services be maintained by a continuing subsidy. Thus, I am in agreement in principle with the provisions for public subsidies. However, I would ask that the committee give full consideration to two factors, (1), that in all cost studies related to subsidies cost data submitted by the railways be open to scrutiny by those who make the decisions about the amount of public money to be used for these subsidies; and, (2), that the committee examine the impact of the removal of the bridge subsidy on certain industries which are vulnerable to freight rate changes, and that particular attention be given to the impact on farm machinery prices.

I am in agreement with the recommendation already made for the establishment of an advisory committee to the Canadian Transport Commission, made up of representative users.

There has been much public discussion respecting the role of the Canadian Pacific Railway Company in the transportation structure in Canada. It is the view of many people that the continuing commitment, made by the Canadian Pacific Railway in return for the rights granted in its original charter and the subsequent aid given, represents a larger commitment than the company is prepared to accept. The Canadian Pacific Railway should not have it both ways. It should not, on the one hand, retreat from its commitments, and, on the other hand, maintain the sanctity of benefits and awards. Moreover, since transportation is a vital factor in the future welfare of Canada, it must be considered in terms of the over-all economic and social costs and the over-all benefits to the Canadian economy. The desired objective of efficiency and service will not I

think be achieved in the rail sector by a system that is split into two separate segments. What is needed in Canada's transportation services is not more competition, but more co-operation.

Consequently, it is my recommendation that, as a first step in integrating transportation services, Parliament give consideration to nationalizing the Canadian Pacific Railway. This measure is desirable in order to integrate transportation services, to avoid wasteful competition and to make the best use of existing lines and facilities. It could be a basic step in the rationalization of transportation services.

Bill No. C-231 will establish much of this framework for public involvement in the transportation industry for the future. It contains features that point the way for the development of the national transportation policy. Saskatchewan's principal concerns, again, are, first, that the reliance on competition in establishing many rates will work to the detriment of areas such as Saskatchewan; and, second, that in spite of the improvements in rail line abandonment procedures further improvements are needed to give effect to a fully comprehensive social approach to this question.

The CHAIRMAN: Thank you, Mr. Lloyd. Will we follow the usual procedure, Mr. Pickersgill?

Mr. PICKERSGILL: I would like to apologise to the witness and to the committee for my failure to be here at the beginning of Mr. Lloyd's statement. I have, however, read his full brief, and as I did not have to read it aloud I have caught up with him.

I do not think I need say anything about the first part of the summary at all.

With respect to rail line abandonment in the second section, I think Mr. Lloyd was here and heard the observations I made this morning in response to the brief from the government of Alberta. I think that they probably go a long way to meet the point raised in his brief, that there is to be, if any interested party desires it, the fullest opportunity for interested parties to be heard in the hearing at every stage of abandonment. The area approach is provided for in the bill, and it is intended that it shall apply in every area where it makes any sense.

Mr. Lloyd and I had a few private words this morning, and I pointed out that in Alberta and Manitoba particularly there were many lines on which an area approach before 1975 would be quite unrealistic, because they were individual lines, with no other possible candidate for abandonment in the same general area. But it is the intention, and we have had assurances from the railways, that they are in full sympathy with the approach in this bill and that they do intend to co-operate in accomplishing the ends that we have in mind.

There have been one or two amendments already made—and Mr. Lloyd may have had the opportunity today to look at them—to the rail line abandonment sections, which I think he will approve of.

I now come to the freight rates section. I suppose, in a way, I could approach this from two points of view. One would be to try to settle the differences between us, and the other to try to settle the similarities. I think I would rather do the latter. I do think that if I could rewrite point (1), in the middle of page 3 of Mr. Lloyd's brief, I would just say that wherever there is a monopoly position on the railways the new legislation should make provision for overriding public

control of all freight rates. Frankly, I do not think it is necessary, where there is effective competition, but it is the purpose of the bill to have this proposition carried out so far as there is a monopoly situation.

I think that in two ways we intend to carry out a part of (3). There are certain amendments that are going to be proposed that will be of help to the small shipper, and there is also, as Mr. Lloyd heard in the discussion this morning, a proposal to bring forward a new clause 317, which would I think meet the problem of bulk shippers much more effectively than any maximum rate that would be meaningful, unless we were just going to establish overall rate control again.

As for clause 336, Mr. Lloyd's position is expressed in a way here with which I think I would agree—that this proposal does need scrutiny. Over and over again I have given the reason why we have accepted the two principles that are in the present maximum rate formula, that they were both borrowed from the MacPherson commission, and that the scrutiny is an element that has been added by the government in putting this bill before the Committee. I think I would go so far as to say that I agree wholeheartedly, in principle, with the idea of a review within 3 years instead of 5 years. It is just a question of how we time the 3 years to make sure that we will have had enough time to have sufficient experience to make the review meaningful. But that there should be a review, and that the review should be at the earliest stage consistent with enough experience to make it meaningful, is certainly the intention of the government.

Regarding the Crowsnest votes, I am very very pleased indeed with the position taken by Mr. Lloyd in his brief. He recognizes quite clearly that there should be a study of these rates, and he makes the point, which I cannot too warmly echo, that in such a study there should be the fullest opportunity for interested parties to present their views. And indeed, not merely to present their views, but also to contest the facts submitted in such a review.

There is a certain ideological implication in point (2). Mr. Schreyer and I had a little discussion about that yesterday. I would not think that Mr. Lloyd would expect from me a wholehearted endorsement of that view, but I think we do feel that there is ample scope in the bill, in the form in which it is now before the committee, with the amendments we now have, to take these considerations into account.

In the matter of faster service, I think that there is no real quarrel between us. I think we have met the problem here.

On the question of subsidies, perhaps I would be just a slight degree more hardboiled than Mr. Lloyd is, because I am the Minister of Transport and he is the leader of the opposition in Saskatchewan, but the basic view we have is that there are all over Canada, and perhaps, so far as railways are concerned, more in Saskatchewan than anywhere else, branch lines which may not return to the railway, but which do perform an essential, social and economic—I think I would want to put the word “economic” in as well as social, although I do not think we will quarrel much about that—function, and that is precisely why we are providing that these lines should be kept in being if the commission decides that they have had success.

On point 1, that in all costs related to subsidies cost data should be open to scrutiny, of course this is true. We are not going to pay a subsidy unless we



know, and are satisfied, that there is some reason for it, and you cannot discover that without not only scrutinizing the cost data, but perhaps doing costing on your own to verify them; and the commission is to be given, of course, if the bill passes, an adequate staff to do its own costing. Of course, since the Minister of Finance will have a great interest in keeping these subsidies down, I think that there will be no disposition on the part of the government to have the cost data of the railways accepted in an uncritical fashion at all.

With respect to the bridge subsidy, it was in relation to Bill No. C-120, a couple of years ago, that we listened to the observations of almost every witness from Saskatchewan, who said that if this was to be abandoned it should be phased out. We have already met that point, and from our studies we have the impression that the effect by phasing it out over 3 years, is likely to be very small indeed on prices.

To deal with the paragraph on the Canadian Pacific Railway, I think Mr. Lloyd will not be surprised if I say that this is completely beyond the scope of the bill. What we are attempting to do is to provide new ground rules for the transportation organizations that now exist in Canada. If we are to have the nationalization of the CPR I would think it ought to be decided only after it has been an issue in a general election, because it would be a tremendous commitment of the limited resources of the country, and of the limited resources that the tax payers are willing to give to the government. There would be, I think, at least two views about that in the country, and I am not sure that I would be on Mr. Lloyd's side. I do not think that it should be slipped surreptitiously into a bill of this kind. I think it is a wonderful subject for a great ideological debate on some other occasion when it might certainly be an issue at an election.

Having said that, I come back again to say that there is no intention, on dealing with the last paragraph of all, to rely upon competition in cases where there is not competition. We certainly do want to protect the social interests and the interests of the population in areas that are subject to transport monopoly, whether it is by rail or any other form of transport; but I do think that, with the amendments, we have now really effectively met Mr. Lloyd's points on rail line abandonment.

I think that is all I have to say.

The CHAIRMAN: Mr. Cantelon?

Mr. CANTELON: First of all, I should congratulate Mr. Lloyd on putting forward what I think would be essentially a Saskatchewan viewpoint. I believe I am perhaps right in considering that the central point of what he is saying is to be found on page 4 where he says:

The facts of Canadian geography make transportation a key factor in the economy.

If I might be permitted, I would add "in the economy of Saskatchewan". It is, of course, a difficult thing to question him on this brief, because in his original submission he was working on the premise of the original bill, and this bill has been completely changed, particularly by the removal of these two sections to which Mr. Frawley gave such comprehensive treatment this morning. It is hardly worthwhile asking any questions about that, as far as I can see.

You certainly hold the position that the railways enjoy a considerable degree of monopoly on the Prairies. This is the same view, I think, that Mr. Frawley had. I wonder if you would care to document that in any respect?

Mr. LLOYD: Well, I suppose the documentation is really inherent in our geography and the fact that over a considerable part of the province a geographical area is served by one railway, and one railway alone. Having in mind that our principal product is wheat, there is only one way to move it, and that is by rail. There is one rail line and this must be patronized by all of the producers of wheat in the area. To that extent they enjoy a monopoly.

Mr. CANTELON: I am rather interested in this particular connection, because some years ago I asked the president of the CNR if they abandoned a railway line—and I specified one in particular which happened to be not too far away from the CPR line, and the business was obviously going to go to the CPR line—would he be worried about that fact that he would lose the business, and he rather shocked me—and perhaps it will shock you, too—by saying that they did not care if they lost the business. In other words, he did not care very much whether we removed the line or not. It was a losing line, and he was obviously happy to get rid of it.

Mr. LLOYD: This may be the case where there are two lines close enough so that there is an alternative for the shipper, and there are these kinds of occasions; but, in the main, people do not have these kinds of alternatives, of course. If the railways close, they will go the added distances to the next line which may be, as I said, 25 to 30 miles away, or further.

Mr. CANTELON: There is a point in here in which you suggest, on page 2, section 7 that:

there should be methods of reimbursing provincial agencies for added costs resulting from abandonment.

If a particular line is being abandoned and the farmers who are moving this grain are going to be faced with added costs, what did you have in mind as being reimbursed? Were you thinking of a road system, for instance?

Mr. LLOYD: Certainly, to take the example I have just used when the farmer starts hauling wheat another 25 miles he is, first of all, going to be faced with the need for much better equipment than was satisfactory in moving it a relatively few miles. As a result, we are going to have many larger trucks on the road. This in itself is going to mean the relocation and rehabilitation of many miles of the Saskatchewan road system, both municipal and provincial. This is going to be a very considerable added cost. This is certainly one of the costs of providing alternative services and one of the costs which we feel ought to be considered before a line is abandoned to begin with; because it is part of the cost which comes out of the production and pockets of the people of Canada.

Mr. CANTELON: You know, I suppose, that we have had suggestions, from others who have presented briefs to us, that the federal government might assist in the cost of road building in such areas. As a matter of fact, it has been pointed out that there is one particular area, the Buctouche-to-Moncton line, where aid has been given by the federal government to assist in road building costs. It seems to me that under these circumstances, we would need more than just a

statement from Mr. Pickersgill that they are sympathetic towards this, and that perhaps we really need a policy statement on this line. I am not sure that what Mr. Pickersgill has said could be considered a policy statement.

Mr. PICKERSGILL: It is a policy statement. I think I have even said that once in the House in connection with Buctouche. I have certainly said it several times to the Committee. I said it when Mr. Molgat was here the other day.

It seems to me it just makes plain good sense that if you are going to pay a railway company, say, half a million dollars to keep a line going, and you could provide a good road for half the capitalized value of that amount over the period of years you expect to have to keep the line going, any minister of finance would be very glad to choose the more sensible alternative.

I must say that I was the author of the policy in relation to the Buctouche-to-Moncton line, and there are two or three other places where I think it might be applied with profit to the community and to the taxpayers of Canada. So far as I am concerned, that it is my policy as Minister of Transport, and it has been endorsed by the government.

Mr. CANTELON: I am very glad to hear that stated.

Mr. PICKERSGILL: That does not mean that we are automatically going to build a road every time there is a branch line taken away. I think we made an amendment yesterday, when we were in camera, to remove any uncertainty about this being considered.

Mr. LLOYD: This should encourage the municipalities to make applications next week.

Mr. PICKERSGILL: If the application is an application to have a rail line abandoned, and it is a Canadian National line, I might be quite interested.

Mr. CANTELON: I am very happy to have Mr. Pickersgill clarify that so well, because I think it is two years ago that I first asked him this question, and on that occasion he was a little evasive, yes.

Mr. PICKERSGILL: Yes, that is right because at that time I was trying to convince my colleagues, with Mr. Cantelon helping me.

Mr. CANTELON: Thank you. I am glad I have a little effect. Those were all the questions I had.

Mr. PASCOE: Mr. Chairman, at page 4, with reference to the bridge subsidy, the minister says that in phasing it out over three years it will have little effect on the West. I have asked this question before. The bridge subsidy is \$7 million a year. Now if that is phased out where is the cost going to go with respect to picking up that \$7 million?

Mr. LLOYD: I presume it would have to go onto the goods which are either shipped out or are shipped in. I have seen figures which indicate that farm machinery moving from eastern Canada to Saskatchewan receives the benefit of the bridge subsidy, which amounts to 10 per cent of the total rate. This is probably the largest single commodity which is going to be paid for. This would be the farmers of Saskatchewan, Alberta and Manitoba, probably most of it in Saskatchewan.



Mr. PICKERSGILL: Well, Mr. Lloyd, have you considered the effect of the lack of any tariff on this particular item? There is no tariff on farm machinery coming from the United States. The evidence given to me—of course these things are always hypothetical until the actual situation arises—is that what really determines the rate on farm machinery from Brantford or Hamilton or Toronto to western Canada is not any payment the railways get under the bridge subsidy but the comparative rate from Chicago to North Portal. If the railways want to have it hauled in Canada they have got to meet that rate. I do not think abolishing the bridge subsidy would have any effect on that set of circumstances. That is the correct basic factor in rate making, as I believe it is.

Mr. LLOYD: My statistics were taken very recently from a statement of the present government of Saskatchewan.

Mr. PICKERSGILL: Oh, I know.

Mr. LLOYD: I was going to add they might be wrong.

Mr. PICKERSGILL: I think it is quite correct but I am saying perhaps it only helps the railways; perhaps it is not passed down in the lower rate. Also, it probably would be difficult for the railways to increase the rate without losing the business. Perhaps this is an academic argument but I think it is probably pretty correct.

Mr. PASCOE: The witness, Mr. Lloyd, says that so far Saskatchewan is saved 10 per cent on the bridge subsidy.

Mr. LLOYD: The information I have, which was included in the government of Saskatchewan brief of about a year ago, was that the farm machinery which now moves from eastern Canada to Saskatchewan receives approximately 10 per cent of the benefit of the bridge subsidy. So, this is a substantial added cost, if it is added, to farm production.

Mr. PASCOE: In your opinion then it would be an added cost to the farmers?

Mr. LLOYD: Yes, although Mr. Pickersgill has stated an alternative, I think the pattern of movement is developed and it is unlikely it would change very much from what it is.

Mr. PASCOE: If I could just ask the minister and Mr. Lloyd a question on the cost to the Prairies. In the Alberta brief Mr. Frawley gave figures to show that the cost of moving steel plate from Hamilton to Vancouver was much less than to Calgary. Would you have an opinion on that? Would you have any specific facts relating to Saskatchewan?

Mr. LLOYD: I cannot quote them offhand but I have seen over the past years a great many statistics to indicate this kind of odd result of the application of freight rates where in fact it is more expensive to ship things the lesser distance than it is a somewhat longer distance. I know such figures do exist, Mr. Pascoe.

Mr. PASCOE: In regard to passenger service, you said Bill C-231 can assist to stabilize present passenger operations. Do you consider that there is adequate passenger service across Canada now if we stabilize at the present level?

Mr. LLOYD: No. I think, as a matter of fact, in the full brief, Mr. Pascoe, we do express some hope that new techniques and new approaches which are being applied by the CNR in particular, might be used to extend passenger services.

Mr. PASCOE: Do you say the success of passenger services are strongly influenced by the desire of the railways? Do you consider the CPR has complete desire?

Mr. LLOYD: No, and I slipped in an extra sentence when I was presenting the brief to say I was not impressed by the desire of the CPR, as indicated by our experience in Saskatchewan.

Mr. PASCOE: You have made reference to captive shippers. Do you consider there are captive shippers in Saskatchewan?

Mr. LLOYD: Oh, undoubtedly the group I spoke of in response to an earlier question by Mr. Cantelon. Our shippers of wheat, in particular, are captive shippers.

Mr. PASCOE: What about potash?

Mr. LLOYD: Yes, they are captive shippers except that we have had examples, I think, here of the kind of competition which may remove them from being captive shippers but it appears to me to be wasteful. I quote you three examples of a potash mine, one at Esterhazy which, in the opinion of many lay people, could have been adequately served by the CNR which was there, but the CPR did build in extra mileage to serve it. At another potash mine the CNR was there and the CPR perhaps released it from being captive, but it seems to me unnecessary kind of competition to build a line to move it. In another case the CPR has built a line directly across the main line of the CNR which was much closer in order to get in on the business there. So, potash may be removed from being a captive in this way but I think it is a most undesirable way to release it. Certainly, wheat and a number of the other productions of Saskatchewan are, in fact, captive to a particular railway; there is no doubt about it.

Mr. PASCOE: With regard to branch lines I think you made some reference to potential. I note from looking at a map that the line from Aberdeen to Melfort is not protected. Would you say there was a big potential there in years to come and that they should protect that line?

Mr. LLOYD: It is really one of the productive areas of the province and one of the reasons we drew attention to this in particular was that it is part of the feeder system to the Hudson Bay port of Churchill. This is of particular concern, I think, with regard to this line as well.

Mr. PASCOE: Thank you.

Mr. HORNER (*Acadia*): Would you agree that this whole bill was drawn up in its original form with the idea of freeing the railroads and allowing them to become more competitive? Would you agree that was one of the intents?

Mr. LLOYD: I cannot speak on the intent. The effect, in so far as we are concerned in Saskatchewan, would be I think, to free the railways in a rather unfortunate way, free them in the matter of making rates and to some extent to free them in respect of rail line abandonment. This is not really the kind of freedom that I like to see encouraged. I think there is an overriding public responsibility involved here and that no single instrument or corporation should be free when this freedom results in some detriment to the public welfare generally.

Mr. HORNER (*Acadia*): In other words, if they were as free as the effects of this bill may make them it would be detrimental to the public interest of Saskatchewan particularly?

Mr. LLOYD: Yes. We expressed in the brief two major concerns at the beginning of the summary.

Mr. HORNER (*Acadia*): In looking at the bill, excluding clauses 317 and 336, would you say that the bill then even as amended allows the railroads to become relatively free in our economic society?

Mr. LLOYD: I would like to be more certain of the effect of clauses 317 to 336 before answering, Mr. Horner.

Mr. PICKERSGILL: There is not a 317.

Mr. LLOYD: I am confused by Mr. Horner's question.

Mr. HORNER (*Acadia*): Let me put it this way. If there are no clauses in the old Railway Act and there is no clause in this new one to group together the protection that was provided in the old Railway Act in sections 317, 319 and 320, particularly those three clauses in the old Railway Act, does it not free the railroad to a large extent in our economic society?

Mr. LLOYD: Yes. Here again, I think I must distinguish between freeing railways and freeing the economy of Canada. But, if these are the sections which allow the railways to take fuller advantage of any monopoly position and it makes them more free simply to abandon services for which an alternative will have to be provided which will be more costly, then I think this is a regrettable move.

Mr. HORNER (*Acadia*): You mentioned the word "monopoly" in your brief. Do you believe there still is a monopolistic area in Canada where railroads can take advantage of the economic conditions, shall I say?

Mr. LLOYD: Yes. Mr. Frawley, for example, quoted this morning from some substantiation of this from the MacPherson Royal Commission.

Mr. HORNER (*Acadia*): I wanted you to answer this question because the railroads, in submitting briefs to this bill earlier in the committee proceedings, suggested that monopolistic conditions that brought about the Board of Transport Commissioners have completely disappeared now and there was no need for a regulatory body to set or regulate rates. I think that if you believe that monopolistic conditions still exist in Canada it must also follow there should be a regulatory bod to set rates. Would I be going too far in saying that?

Mr. LLOYD: No. I think we make the point that in view of the monopolistic position of railways, particularly on the Prairies, the new legislation should make provision for overriding public control of all freight rates.

Mr. HORNER (*Acadia*): We have had quite a bit of history with regard to the transportation industry and railroading particularly in Canada. I have two other questions, one with respect to abandonment of lines and one with respect to the nationalization of CPR. Is it not true that back in the 1918's, at the time of the formation of the CNR, the CPR came to the then government and said, take us over too?

Mr. LLOYD: They may have. I am afraid I am not competent to answer that.



Mr. HORNER (*Acadia*): I think history will bear out the statement that they did. The government at that time said no, they would not, that they were able to function on their own. Now, the CPR has no intentions of allowing their railroad network to become nationalized. One would gather from that that they have made a profit hauling our Western grain and have built up quite a network of profitable railroading in western Canada particularly.

One further question with respect to rail line abandonment. You have presented the committee with two very good maps, one on the guaranteed lines and one on the rail line abandonment applications that were before the transport commission on September 1, 1966. The Minister has guaranteed that certain lines shall not be abandoned until 1975. But, what is in the guarantee, Mr. Lloyd, in your opinion, to assure that services will be maintained over those lines until 1975 at least? In other words, the railroads, so far as I can see, can diminish services on those lines; they can, thereby, bring about a diminishing net profit or an increase in losses until 1975, when they can produce statistics to prove that those lines are operating at a loss, and automatically they, too, then will be up for abandonment. So, in your opinion, Mr. Lloyd, how good is the guarantee after 1975 for the lines. If you look at your two maps you will note that there is a lot of trackage on which application could be made for abandonment after 1975?

Mr. LLOYD: Certainly, I do not see anything that protects against the kind of decreasing service which you express as a possibility. Indeed, it is possible, by reference to lines in Saskatchewan of which I know, to show examples of decreasing service, such as where the train runs hardly at all during the winter or runs spasmodically during the winter. The result of this is to encourage shippers to make use of other shipping points even at a cost of some greater difference in distance because of the fact the service is more reliable. I presume that the only protection at that point is in the kind of examination that can be made of the full history. This, of course, is one of the reasons for urging that there be public hearings so the whole thing can be discussed in that context.

Mr. SOUTHAM: Mr. Chairman, several other members of the committee have asked several of the questions in which I was interested. I would like to subscribe to Mr. Cantelon's opening remarks in complimenting Mr. Lloyd on presenting a brief that, in general, sets forth the Saskatchewan viewpoint regarding the proposed new transportation policy set out in this bill with the exception that I am not in agreement with his suggestion that we nationalize the CPR and have its services integrated with the CN. I do think we have a place for this great transportation facility under proper supervision that will add to and enhance our economy in due course. Other than that I do think I am in general agreement with the points brought out by Mr. Lloyd.

I think he paid particular attention to rail line abandonment. Several other committee members have questioned him on this but I think we could examine it a little further. At the top of page 2 you state:

However, there are some aspects of the policy statement which require further examination. In particular, we recommended...

You go on to state under item 1:

That, considering the obligation placed on the proposed commission to conduct regional studies of rail transportation needs, the scope of the

Commission's authority to alter the government's guaranteed prairie rail network be clarified.

It is possible that you have gone into more detail than this in the major part of your brief. If not, would you like to enlarge on that statement a little further?

Mr. LLOYD: I think we do enlarge on it somewhat in the major portion of the brief, Mr. Southam. If you read the full comments there, this guarantee which it appears has no legal basis as yet but will be given effect under section 314(g) will be effective for eight years to January 1, 1975. The date appears to be arbitrary. At the same time the role of the commission with respect to the guaranteed network is somewhat clouded. The bill makes provision for area or regional examination of railway needs by the commission. With respect to the prairies, the government's commitment to a guaranteed network appears to have prejudged the work which the commission is supposed to do. I suggest the scope of the commission's authority to alter the network should be clarified. It seems to me quite conceivable that year to year almost conditions might change to the extent that certain lines may deserve protection which might not have been held to deserve protection at the time the government policy statement was issued in September of last year.

Mr. SOUTHAM: I have felt, and I think this has been the feeling of quite a number of our committee members too, that when the MacPherson Royal Commission made a study of the problems of transportation eight years ago we did not have the buoyant economy we have now, and when its report was brought in there was a lot of pessimism in it. But now that conditions have changed I think we should be far more optimistic. But I have a feeling we still have some pessimism in this bill itself. Would you agree, so far as the approach to solutions to transportations problems is concerned, that we are too pessimistic rather than being optimistic?

Mr. LLOYD: In the main brief, again, on page 16, I think we indicated one set of figures which supports your statement, Mr. Southam. We were able to show that the wheat acreage in 1966 had grown considerably since the ten-year average, for example, from 1940 to 1949. We were able to show that the yields in bushels per acre had grown. We were able to show that the total production had grown fairly steadily, taking it in 10-year lots over that period. Certainly, with respect to just wheat production, I need not tell you that with the introduction of fertilizers, better cultural methods and so on, increasing production is something which we look forward to with some degree of confidence. On that aspect, certainly, I think there is room for a degree of optimism and that some of these lines which might have been considered unprofitable on the basis of a 50,000 bushel figure can become profitable in the years to come.

Mr. SOUTHAM: I am glad to hear you say that. I am in agreement with those sentiments.

Another thing that bothers me and other Westerners and you are familiar with this, is that Saskatchewan in general is made up of a vast area of many small towns and villages rather than large centres where the people themselves are wholly dependent on the proximity of the railroad, and the fact that it is a shopping centre because the grain elevators are situated there and people gravitate towards that particular area.

With the abandonment of certain lines this almost, you might say, obliterates some small businesses. You say, under section 7 of this rail line abandonment, that the Committee considered the question of compensation for losses from abandonment to owners of rail tied investments, and that possible methods of reimbursing provincial agencies for added costs resulting from abandonments should be explored. Have you given any thought, or has anybody in Saskatchewan given any thought in particular to this and come up with any suggestions, or is there something further in your brief that would provide an answer to this. How would you go about this?

Mr. LLOYD: I would hesitate to say that there has been a great deal of precise and detailed thought given to methods of working it out. There has been a considerable exploration of the kind of losses that will incur. For example, the assessments of communities, both rural and urban, will undoubtedly decrease very considerably. There are a great many other costs which, again, I would hesitate to try to define. But certainly, as we said in the brief, this has put more economic pressure on the small farmer. It is going to mean that more of these are pushed off the farm, and out of agricultural production. It is going to stimulate the move toward the growth of the large farm and the larger farmers. All of these have their kind of added costs, both social and economic which, I think, are deserving of study by somebody with the competency to undertake it.

Mr. SOUTHAM: This problem of the rail tied investment becomes more pronounced. I am thinking of the small business man in a village of 200 or 300 people or maybe only 100 people, where you have two or three elevators and this one merchant, who is also the postmaster—he may have a filling station and so on—this has been his whole livelihood. When that line is finally abandoned he will have to look elsewhere for a livelihood, and this really becomes an economic shock to the individual. I was wondering if you had given any thought to some type of subsidy, loan or something under some legislation that could provide assistance to this man to rehabilitate himself.

This takes me to a principle that I have been suggesting in this connection, and I would like to have your expression of opinion on it. It is on the Order Paper now. The principle I suggest is a moratorium in such an instance, where a section of line of eight, ten or fifteen miles is going to affect a number of these people, and that, if and when, say after 1975, an application does come before this new commission and they decide in their wisdom that the line should be abandoned—there should be a time lapse there and I have advocated five years—and I just throw that out as a possible reasonable suggestion, to allow this man or several people in these small areas to rehabilitate themselves without having to dispose of their property. The local municipalities too could make adjustment to the allocation of taxation and build roads and so on to service the people who would have to go further afield for their services. Has there been any thought given to this?

Mr. LLOYD: I would concur with the two general suggestions made, that certainly the person who has invested not only dollars but many years of life deserves some warning before he is totally disrupted and his only choice is to allow himself to be dumped some place else. Also, rehabilitation measures are necessary, not because this happens as a result of rail line abandonment but because of whatever reason it happens. I should think that it should properly be fitted into a larger plan of rehabilitation of people on some kind of regional basis.



Mr. SOUTHAM: I have one last question, Mr. Chairman. If and when rail line abandonments do take place in these areas, it is going to force—and I think you mention this in your brief—farmers to haul grain possibly from 25 to 30 miles while now the average is 12 to 15 miles. Has a study been made, or can you give us any information how this might affect the economy of the farmer in relation to the Crowsnest pass rates because if you go too far in this abandonment and force the farmer to haul grain too far the increase in cost to the farmer in getting his grain to market will not be offset by any advantage that he has now under the Crowsnest pass rates. In other words, it becomes an economic hardship on the man that has to haul 30 miles compared to the man that only has to haul 10 miles or who is fortunate enough to live adjacent to a line. This I think is a problem that has worried a lot of farmers.

Mr. LLOYD: I have not seen any work done on the relationship between the two but undoubtedly, again, the man who has to haul an additional 30 miles, who has to buy larger equipment, more expensive equipment which is more costly to operate, and to operate it for more hours of the year, is going to find his production costs affected in a very real way.

Mr. SOUTHAM: This is one of our big concerns and I was wondering if there has been any answer to that, particularly in Saskatchewan, because grain is a basic part of our economy and it is going to affect a lot of people. We have roughly 110,000 people with permits selling grain in Saskatchewan, so it affects a large percentage of our people.

Mr. LLOYD: We have a figure in our brief of the number of people who are affected in one way, and a calculation made three years ago does indicate that the market value of farm land might be affected to the extent of at least \$20 million, and that the assessed value of the land might decrease by \$6 to \$7 million. Both of these are very appreciable economic factors.

Mr. SOUTHAM: Thank you, Mr. Chairman.

The CHAIRMAN: Is that all, Mr. Southam?

Mr. HOWE (*Wellington-Huron*): Mr. Chairman, I was rather interested in the statement Mr. Lloyd makes in his summary on the first page where he says:

Our principal concern is that the proposed approach to the setting of freight rates may be detrimental to the interests of the people of Saskatchewan.

This has been my feeling in connection with this bill. In replying to a question of Mr. Pascoe's in connection with the bridge subsidies which is \$7 million, you felt that probably somebody was going to have to pay that \$7 million and when it is phased out it could evolve into an increase in freight rates or costs of machinery or whatever it was in Saskatchewan. Was that your feeling?

Mr. LLOYD: Yes.

Mr. HOWE (*Wellington-Huron*): Well, then let us go further, Mr. Lloyd. This whole bill came out of the MacPherson report. The MacPherson Commission was set up back in 1958 when the Freight Rates Reduction Act was brought, and \$20 million was set up as a fund to subsidize the railroads so that it would not

be necessary to increase freight rates. Well, that \$20 million I understand has grown to \$100 million, and that does not take into account the recent wage increase on the railroads. So the present subsidies that this bill is going to eliminate by giving the railroads freedom to set their own rates, is going to be equal to \$125 to \$130 million, plus your \$7 million. Somebody is going to have to pay for that. Mr. Gordon said, so far as the railroads are concerned, when this subsidy is removed their increased production through new technological methods would take up the slack and that there would not have to be that much increase in freight rates. Mr. Sinclair said that he did not agree with that, that somebody would have to pay for this reduction. You made the statement that the developing technology of transportation not only dictates change but indeed may offer opportunities for improving services at lower cost. Where do you feel this \$150 million is going to go? Do you feel that improved technological changes will take up the slack, or do you feel that if freight rates are freed somebody is going to have to pay for this?

Mr. LLOYD: Well, I would hesitate to try to allocate it that way. Undoubtedly, if it is there somebody is—

Mr. HOWE (*Wellington-Huron*): If it is phased out as a subsidy over a period of four or five years, eventually the slack has to be taken up by the taxpayer or somebody.

Mr. LLOYD: Are you referring specifically to the \$7 million?

Mr. HOWE (*Wellington-Huron*): No, not to just the \$7 million, I am referring to the entire subsidy.

Mr. LLOYD: Well, certainly I think we can expect two things. Technological development plus increased usage in other general efficiencies hopefully may take some of it. But on the whole I come back to the major premise in the brief, that the transportation system is a part of our total investment in the economy and in the development of the country; that, as a result, the national economy uses it as an instrument of this development. Our contention in the brief and elsewhere is that there have been particularly burdensome costs on Western production because of the transportation and national policy to some extent in the past, and our concern is that the bill as it was written would add further to the unjustness of some of those burdens. Consequently, we recommend that some of these not be proceeded with or that some different approaches be used.

Mr. HOWE (*Wellington-Huron*): You still have some doubts that the freight rates are going to stay at the level they are according to your statement, and the setting of freight rates would be detrimental to the interests of the people of Saskatchewan. Do you feel that way now?

Mr. LLOYD: Yes, I have some doubts about many things.

Mr. HOWE (*Wellington-Huron*): Do you not feel there is going to be an increase in freight rates to some of the consumers of Canada?

Mr. LLOYD: I am sorry, I did not hear you.

Mr. HOWE (*Wellington-Huron*): Do you not feel there is going to be an increase in freight rates to take up this \$150 million? It cannot all be taken up in technological improvement.

Mr. LLOYD: This may well be true but, on the basis taken in our brief, in fact, the railways in Saskatchewan enjoy in many cases a monopoly position and, in fact, railways do not enjoy that position in other parts of Canada; it opens the door and perhaps invites the temptation to take a greater share of it than is justified in those areas in which they have this freedom.

Mr. HOWE (*Wellington-Huron*): Well, I assume you certainly would hope that you would not have to pay the whole shot.

Mr. LLOYD: I would hope not. We would have another secession.

Mr. DEACHMAN: Mr. Chairman, I wanted to refer to some remarks Mr. Lloyd made earlier about the grain movement being captive and the shipping of potash being captive. In the sense that grain moves under a statutory rate, certainly the grain trade is not captive to a rate set by the railway, is it?

Mr. LLOYD: As long as those rates remain.

Mr. DEACHMAN: Yes. It is a statutory rate and it is an advantageous statutory rate set long ago by the federal government.

Mr. LLOYD: Whether it is advantageous or not I would say has not really been fully satisfied.

Mr. DEACHMAN: Well, it is a statutory rate set by the federal government and one which we have not found people advocating the removal of before this Committee.

One might say that rather than the grain shipper himself being captive, the railway in this instance is the captive, is he not, Mr. Lloyd, because the rate is set for him by the public, or indeed by the very shipper himself?

Mr. LLOYD: No. As I said earlier when I interrupted you, Mr. Deachman, I am not sure that that case has been proven and, as I say, in the bill I share the sentiments of many people—and we heard something of it from Mr. Frawley this morning—that these rates are not necessarily as disadvantageous to the railways as is frequently presumed.

Mr. DEACHMAN: In the case of potash, are those rates set by the railway or do you suppose negotiation took place between the potash companies and the railway with regard to the fixing of a rate before they got into the business of setting down a mine shaft?

Mr. LLOYD: They were negotiated.

Mr. DEACHMAN: So this is not a captive rate in that sense; it is a negotiated rate.

Mr. LLOYD: Perhaps not a captive rate in the sense that they are able to negotiate them. They fortunately are in a position of being fairly big-time people and they have the economic power with which to negotiate.

Mr. DEACHMAN: So it is a negotiated rate.

Mr. LLOYD: Yes, but they are captive customers, I would say. They are free to negotiate and they have been free to negotiate only because they have some economic power; but the other people in that same community who have to make use of the railways for a great many purposes do not have that kind of economic power to negotiate and they are true captives.



Mr. DEACHMAN: Are there major captive shippers in Saskatchewan that you could name then who are indeed rated by the railway and who have no alternative, either to negotiate or to use another competitive carrier?

Mr. LLOYD: Most of your individual shippers and a great many of your small business people would be in that position; in many cases, they have few alternatives to the railway, and they have not the economic strength with which to negotiate.

Mr. DEACHMAN: How about the truck?

Mr. LLOYD: In so far as it is possible to use the truck, and there are increasing uses made of it, the increasing use made of it is partly because the railways have not adjusted and have not been interested in that particular business. I think they have been wrong in this.

Mr. DEACHMAN: Thank you very much.

Mr. FAWCETT: Mr. Chairman, Mr. Southam and Mr. Deachman asked all my questions, and think they were answered very well.

Mr. CANTELON: Could I ask a supplementary question on what Mr. Deachman was talking about, Mr. Chairman? If I remember correctly the railways, of course, said that a potash shipper was not captive, and I was trying to remember the explanation that I was given when I asked that question. It was to the effect, —and I must confess that I do not really believe it—that the large shippers were able to negotiate the rate and the railway would see that this rate had to be below a certain level because if it were not below that level the potash would not be moved; it would put onto the market of the world at such a price that it could not be sold. So the rate was negotiated and the railways said it had to be negotiated below that figure.

The point I want to make is that this leaves the railway quite a lot of leeway. For instance, if the potash can be produced in Saskatchewan—let us just use some fictitious figures—at \$2 a ton which, of course, it is not, and it has to go onto the world market at \$5 a ton, the railway can charge up to \$2.90 to get it on that world market. That puts it on the world market then at \$5 a ton. This allows the railway quite a lot of power, I think, in its negotiation; and to me this does not show that the potash company is a non-captive shipper. They are captive to the extent that the railway can charge as much as the traffic will bear and, if I know anything, the railway will charge as much as the traffic will bear. There are occasions where I feel that they could put it on the market at a lower rate and this would improve the development of potash, or any other mineral for that matter, and help develop the country, if the railways did not charge all the traffic would bear. This is the point I wanted to make.

Mr. FAWCETT: I would ask Mr. Lloyd, Mr. Chairman, if he considers a captive shipper one that has no other means of transporting his goods other than, for instance, the railways or by trucks? This has to do with the potash industry because I would think that the only feasible way of handling potash would be by rail. Would you consider that under those circumstances they could be considered captive shippers, with reference to what Mr. Cantelon has said? I think he made a very good point there.

Mr. LLOYD: As I partly said before, they are simply captive shippers. They are free only because they have a degree of economic strength with which to bargain, and even then this is limited by the argument which Mr. Cantelon presented.

Mr. FAWCETT: I have one more question, and this is not a very fair one, so perhaps you cannot answer it. I think you mentioned the fact that where the Canadian National Railways were servicing a potash development in Saskatchewan, the Canadian Pacific Railway built a line there so that they could get a portion of that traffic also. Would you have anything to indicate that because of the fact that both railways were in there the potash industry got a better rate? No doubt you would not have the figures on that.

Mr. LLOYD: No, I have no evidence whatsoever on that. I would submit that it is a most inefficient way of getting a better rate. It brings up this whole point of greater rationalization. The plains of Canada are strewn with the bones of effort of trying to get cooperation and combined usage, and some kind of integration of effort by the railway companies. They have been unsuccessful, for one reason, the writer of the Duff report of 1931-32 castigated the railways for competition which he calls "wasteful"—and this I believe, is one of his minor terms,—and little advantage is taken of the Canadian National-Canadian Pacific Act.

There are three things that I have mentioned with regard to potash—I am not an expert on it but this is the opinion of most of us—and there seems to be no reason to believe that one railway could not have served that plant more efficiently than two railways; or the other plant, that one railway could not have served it better than two railways or, in the third one I mentioned, that there was any savings to the country in building a line across one railway to get to a plant. So while it might afford a better bargaining position, in the end it seems to me to be an inefficient and wasteful way to move the products of Saskatchewan or Canada to the markets of the world.

Mr. FAWCETT: Mr. Chairman, I would just like to close by saying that it would be very interesting to know what the rates on potash are from these various potash industries over the two major lines. But we do not have that information, so I am going to pass.

Mr. SCHREYER: Mr. Lloyd, when the Canadian Cooperative Wheat Producers submitted a brief to this Committee on October 18th last, they also made reference to the provisions in this bill that have to do with railway rationalization. Much the same as the recommendation in your brief they, too, recommended that the Commission's powers under this bill be strengthened in order to accomplish railway rationalization.

When you made reference in paragraph 10 on page 25 of your main brief to strengthening the powers of the Commission to accomplish rationalization, what did you have in mind? Was it something along the lines of making the recommendations of the Commission mandatory with respect to the railways, or by way of withholding subsidies in order to provide inducement?

Mr. LLOYD: No. There would be instances in which the Commission's authority certainly ought to extend into the field of saying to the railways: "You will do this." or "You will do this together." or "You will make use of the other

railway's lines and use common facilities." It seems to me that some body has to take hold of this problem and make decisions on the basis of the overall good of Canada, not on the overall good of the railway companies, and this is going to require powers to be put into the hands of a responsible Commission.

Mr. SCHREYER: You are not necessarily suggesting that the Commission be given powers of making mandatory recommendations?

Mr. LLOYD: Well, whether it is the Commission or not, I would like to see this done by some body who is fully responsible to the people of Canada through the institutions of parliament.

Mr. SCHREYER: And I presume that you agree, at least in part, with the recommendation of the Western Canadian Cooperative Wheat Producers that perhaps it could be done by way of withholding subsidies to the railways if they refuse to co-operate in greater rationalization of our lines?

Mr. LLOYD: This certainly would be one way, if they did not make use of the most efficient way. I can see no reason why the public purse should subsidize them in doing something that is inefficient when another way is available.

Mr. SCHREYER: When you use the term "rationalization" in paragraph 10, page 25, just what do you wish that term "rationalization" to connote? The Minister, if I may say so, seemed to think yesterday that by "rationalization" you meant giving both of the railways more than just running rights on each other's lines.

Mr. LLOYD: I should think it would involve more than that. Roughly, I mean working out a system of transportation which moves our products to their destination in the cheapest and most efficient way. This is a gross oversimplification, but that is basic, it seems to me, to what rationalization means.

Mr. SCHREYER: Mr. Chairman, just one more question to Mr. Lloyd, and then one to the Minister. You made reference, Mr. Lloyd, to the bridge subsidy, and the fact that according to your data 10 per cent of the \$7 million bridge subsidy applied to farm machinery transportation to Saskatchewan.

Mr. LLOYD: Yes.

Mr. SCHREYER: Then at the end of the period during which this subsidy is phased out, would it be fairly accurate to say that it would mean an added farm machinery transportation cost to Saskatchewan farm machinery buyers in the order of \$700,000 to \$1 million per year? Perhaps we should not be dealing in specific figures, Mr. Chairman, but I think this can be arrived at by fairly elementary means.

The CHAIRMAN: I did not hear the question, Mr. Schreyer.

Mr. SCHREYER: The question is simply this, Mr. Chairman. At the end of the period during which the bridge subsidy is phased out, is it fairly accurate to suggest that it would mean an added farm machinery transportation cost on Saskatchewan machinery purchases in the order of \$700,000 to \$900,000 a year?

The CHAIRMAN: Mr. Lloyd has tabled a statement in which the figures did state there would be an added cost, but I do not know what it would be.

Mr. J. S. BURTON (*Research Assistant to the Leader of the Opposition, Saskatchewan*): Mr. Chairman, if I could interject a word here, I believe that



the 10 per cent that is referred to in the Government of Saskatchewan's statement in 1965 does not refer to 10 per cent of the \$7 million bridge subsidy; it refers to 10 per cent of the total freight rate on farm machinery moving to western Canada, and there is no information in this brief as to exactly how much that would amount to in terms of added cost.

Mr. SCHREYER: It would be helpful, Mr. Chairman, if the Committee could be shown figures, and I do not think that the onus is on Mr. Lloyd, particularly. I think it is on the committee to come up with figures to indicate just what this will mean precisely in dollars and cents to machinery purchasers in Saskatchewan.

Mr. PICKERSGILL: If I might interrupt, I do not think you can get it anywhere, because there is an "x" in your equation, is there not? The "x" is what the rate on farm machinery will be three years from now when the bridge subsidy is taken off.

Mr. SCHREYER: No; I am assuming a constant there.

Mr. PICKERSGILL: You are assuming that the freight rates are constant?

Mr. SCHREYER: Yes.

Mr. PICKERSGILL: Well, that would be just a loss to the railway. It is the railway that gets the subsidy in the first instance to keep the rate at a certain level. If they keep the rate at a certain level anyway and they no longer have the subsidy, then it is a loss to the railway—and the only way they get any more is by raising the rate. I am suggesting that if they raise the rate very much they would not get the business, and they would not only lose the subsidy but they would lose any other profits there are in it because the machinery would then come through the United States.

Mr. SCHREYER: I am suggesting that this should be based on the rate that will obtain once the railway has to put a rate into effect that will fill the gap which will be left by the removal of the bridge subsidy.

Mr. PICKERSGILL: I suggest, Mr. Schreyer, that nobody on earth could predict that today, because nobody will know what the pricing attitude of the railways will be. No one will know what rate they would have to set—if they have to change it at all—to make sure of getting this business, if they want to continue to have it. We can each speculate with our own set of hypotheses.

Mr. SCHREYER: My thought is, with all other factors being constant, what will this mean.

Mr. PICKERSGILL: If all other factors are constant, I would say the total loss would be to the railway.

Mr. SCHREYER: Well, we are arguing at cross purposes.

Mr. BURTON: The added cost would not be passed on to the farmer, which I do not think can be assumed.

Mr. SCHREYER: Precisely, Mr. Chairman. My last question is directed to the Minister rather more than to Mr. Lloyd. When the Minister made a statement to this Committee yesterday and again today, relative to the question of whether or not the federal government would enter into negotiations with the provinces

affected by branch line abandonment, he stated that it was clearly the intent of government policy to enter into such negotiations, and whether the government will accede to making a specific grant, and so on, depends on the contingencies of the particular situation.

Mr. PICKERSGILL: I am not quarrelling with your summary of what I said, but you do not mind if I say it in my own words, do you?

Mr. SCHREYER: No, but I was using that merely as a preface to my question. While you have been fairly clear, Mr. Minister, on that point, I do not recall your making any mention as to what the government's intention is with regard to increases in production costs to farmers who are adversely affected by branch line abandonment.

I will try to give you some specific factors. If the line is abandoned, necessitating the farmer to haul his grain by truck an additional 30 miles, it could mean as much as an extra 10 cents a bushel in production costs. This is quite a substantial increase to expect an individual to assume because of a decision in which government was involved in the first place, directly or indirectly. What about that?

Mr. PICKERSGILL: I will give my answer to it in a moment, but I want to restate first what I said about roads. I do not think I ever said anything—and if I did I did not mean to say it—about the government entering into negotiations with the provincial governments. The way it would happen under this legislation is that the Commission might recommend to the government that they consider making a contribution to a highway. If it were suggested at the hearing that there would be a hardship to abandon the particular line unless the road was improved, the Commission might recommend to the government that it would be less of a burden on the Treasury, and a greater social and economic advantage to the community, for the federal government to make a contribution toward improving the roads than to pay the losses of the railway to keep the branch line going.

If that kind of recommendation was made to the government, the government could then, if it chose, make an offer, and it would then depend on the local or provincial authorities, or whoever owns the road, to decide whether they would like to accept. I said I did not quarrel with your proposition; I just wanted to state as clearly as I could the way in which I thought it would operate, because I did not like to have any misunderstanding in it. I am not suggesting that you were misrepresenting me.

Mr. SCHREYER: Is it not in that context that you replied to Mr. Molgat's intention about—

Mr. PICKERSGILL: Oh, yes. That is what I meant to say, anyway. I have never had any doubt in my mind about how the procedure would operate. The government is not going to initiate it at all. The commission is going to be hearing an application for an abandonment. Somebody is going to say that this is going to create hardships and these hardships would be lessened if this, that or the other thing was done. It might be that the Commission would say, well, we would not recommend the abandonment of this line unless this alternative was taken. Then it would be up to the government to decide whether to ask Parliament to appropriate the money for that purpose if that was satisfactory to

the province or the municipality. That is the way it would go and, I think, the only way it could go under the legislation. Quite frankly, I think the compensating advantages might probably overcome some of the disadvantages. All members here from Saskatchewan probably know much more about this than I do, but I am told that it does not necessarily follow anymore that farmers always haul their wheat to the nearest elevator; that very frequently they haul their wheat past elevators at places where there are no longer any stores or anything of that sort, so that they can do their shopping at the same time. I have flown over the prairies enough recently to note, particularly in parts of Manitoba that I know pretty well, that places that used to be large have now shrunk to practically nothing—and that is not where the rail lines were abandoned; that is where the rail lines are still there. There are certain other centres that seem to be growing, and I think the Commission would have to take into account how much hardship there would be. And if there was going to be any great hardship they would not allow the line to be abandoned even if it was a loser; they would pay them off instead. I think that is the only way I can answer your question.

Mr. SCHREYER: Mr. Chairman, I infer from the concluding statement of the Minister that it may well be that if, in the findings of the Commission, an abandonment of a particular line is resulting in substantially increased production costs by way of increased haulage costs to the producer it might well be that compensation will be paid.

Mr. PICKERSGILL: Compensation paid?

Mr. SCHREYER: Yes.

Mr. PICKERSGILL: Under the terms of the clauses we amended yesterday, there would be nothing to stop the Commission from making such a recommendation to the Governor in Council. I do not think I can predict at this stage what he would do about it when he got that recommendation.

Mr. PASCOE: Mr. Chairman, on page 2.8 it says that where rail lines are abandoned—and I imagine they mean there might be some abandoned—the rights-of-way and associated railway lands revert to the province. Can you see what use the province would make of it? Would they use that for a highway?

Mr. LLOYD: No, but frequently they have a strong nuisance value, at least. The fact that they remain divides fields and causes inconvenience of this kind, and it has to do with the whole question of disposition, removing them as obstructions and, perhaps, putting them to some productive use. I cannot see them being too much as highway routes.

Mr. PASCOE: Would you foresee them using the gravel for other highways then?

The CHAIRMAN: Are you trying to put the gravel pits out of business?

Mr. PASCOE: Do you want the gravel too?

Mr. LLOYD: Well, there is a great shortage of gravel in places but I would not know if this is of the quality that could be used.

Mr. PASCOE: I have one last question and it deals with what the Minister has said. If any branch lines are abandoned, do you see any possibility of there being off rail grain handling at these busy country elevators and then hauled by large



trucks into larger elevators. I am thinking of the government elevator at Moose Jaw which has a 5½ million bushel capacity. Perhaps the government would partially subsidize the hauling by the large trucks, and the elevators would still be there.

Mr. LLOYD: I can see some possibility of this happening. Of course it does mean, handling the grain again, which is an added cost.

Mr. PASCOE: But would it not mean larger quotas at the country elevators if they shipped it out to the larger elevators right away by larger trucks.

Mr. LLOYD: If additional storage results, yes.

Mr. SOUTHAM: Mr. Chairman, I have one or two related questions, one dealing with the topic of captive shippers. I have emphasized this on several occasions in the Committee and I think it is important enough to emphasize again. Witnesses from both the CPR and the CNR vehemently—I think I am correct in using that word—denied that under this act there would be captive shippers.

The CHAIRMAN: They did not use the word “vehemently”, they said they doubted whether there would be.

Mr. SOUTHAM: Well, they were pretty emphatic. Nevertheless, I am glad to hear Mr. Lloyd, among a number of other witnesses, state that in his opinion we have captive shippers. He mentioned the grain trade itself and the wheat growers in Saskatchewan and, naturally, the reason we had the Crowsnest Pass rates in the first place was because of the fact that they were captive shippers you mentioned small business and maybe potash, but I am thinking of the coal industry. A lot of people do not realize that we, in Saskatchewan, have 20 per cent of the total coal deposits in Canada. Would you not agree that there are captive shippers in this area.

Mr. LLOYD: Yes, and very dependent on rail transportation.

Mr. SOUTHAM: I just wanted to make that point.

Mr. PICKERSGILL: Would Mr. Southam permit me to say just one word on this whole point. It is perhaps unfortunate that we could not have thought of a different phrase than “captive shipper” because it suggests the normal usage which Mr. Southam has just used, that someone is a captive shipper who cannot ship any other way except by rail. I am sure Mr. Sinclair and Mr. Gordon would agree with me, that a very large proportion of all the shippers in Canada are captive shippers in that sense. They have no other way to ship than by rail. In the sense in which the term “captive shipper” is used in this bill, as Mr. Frawley put it very well this morning, it is a subjective state. You cannot be a captive shipper under the proposed law unless you make yourself one. It does not matter what your physical situation is; you become a captive shipper only if you ask for the protection of the maximum rate and get it. As I say, maybe we should try to think up a different term so it will not mislead people—a “protected shipper” or something of that sort—because I think it has created a lot of misunderstandings in our discussions. Two different meanings have been put on the phrase “captive shipper” and both could be considered proper meanings.

Mr. SOUTHAM: I think the Minister's remarks in this connection are well put but it has left the impression, through the many discussions that we have

had, that unless a man wants to, or an organization or firm wants to classify themselves as a captive shipper they do not qualify. As I say, there are a great number of them who automatically come under that category.

I have one more question and then I am finished. This is referring to the Crowsnest Pass rates. I note that on the top of page 17 of your brief you say:

I share the view of those who have said the Crowsnest Pass rates have not yet been shown to be uneconomic.

Here I think we are sort of taking a negative approach. Under the present terms of the bill we are studying I feel that possibly we could prove that they are economic and, in fact, it might revert to what we are talking about, the farmer could be a captive shipper.

The CHAIRMAN: The railways admitted that they are making money out of it now.

Mr. SOUTHAM: Mr. Lloyd has presented some very interesting figures here and I think the Committee should take note of this before we close our remarks. Let us go back to the table on page 16 of the brief on the production of grain. From 1910 to 1966—that is a 56 year period—the acreage has gone up from 7,220,400 acres to 19,700,000 acres. The average yield has gone from 16½ bushels per acre to 27.7 this year. The production has gone up from 115,059,400 in 1910 to 546,000,000 in 1966, in other words, an increase of about 500 per cent using the same Crowsnest Pass rates. It is the same number of miles of railroad and the same type of rolling stock is used, although we have had some discussion about it being obsolete. If you compare these figures now with the financial statements of both railroads I think you will find that they have shown great profit increases in the last several years, which I think is chiefly attributable to this large increase in production. It could turn out that our farmers are even captive shippers right now under the Crowsnest Pass rates, if it is fully analyzed.

Mr. PICKERSGILL: Well, whether he is or not he has pretty adequate protection that he does not want to lose. I think we are all agreed on that.

Mr. DEACHMAN: I have one question left on potash. Mr. Lloyd, because both the CN and the CP have access to potash mines and as both these railways systems have access to tidewater at the coast, is not the shipper in the best possible position to negotiate the most favourable rate?

Mr. LLOYD: Well, this particular shipper—again, being pretty powerful in the economic sense—has some opportunities to negotiate with both of them. I will still go back to the point I made before: this to me, does not seem to be the way in which to get the best possible rate—that is, by building a line which was not needed at an unnecessary expenditure to make it possible for the two railways to share the business. It does not seem to me to make sense at all.

Mr. DEACHMAN: Is it correct that you would prefer to see a single national railway?

Mr. LLOYD: Yes, there is no doubt about it.

Mr. DEACHMAN: In your knowledge, as premier of Saskatchewan during the course of the potash development, has the potash shipper, with the vast knowl-

edge he has of railway rates and railway movements, ever come to you and said that he would prefer a single national railway to the competitive position he now has?

Mr. LLOYD: Neither you nor I would expect the potash shipper to say this. I am not talking about the potash shipper, I am talking about the whole country of Canada and the benefit to it, and it may be quite different than the benefit to the potash shipper or to an individual railway company.

Mr. SCHREYER: Mr. Chairman, I wonder if I could direct a question to Mr. Deachman.

The CHAIRMAN: Mr. Schreyer, please direct it to the Chair.

Mr. SCHREYER: I will direct my question to Mr. Lloyd then. To the best of his information, does he have any evidence to indicate that a shipper of a resource commodity—let it be potash—gets any better rate if there be two competing lines to the source of the resource, than he would get if there were only one railway line into that area?

Mr. LLOYD: No, I have no evidence to indicate this and I am sure the reasons the Canadian Pacific Railway built into Esterhazy were quite separate and distinct from any considerations of cost of transportation.

The CHAIRMAN: Well, gentlemen, that concludes the questioning. I want to thank Mr. Lloyd for his presentation of the main brief and the summary on behalf of the CCF party in Saskatchewan. He has been with us all day. Thank you Mr. Lloyd, for being with us. I am sure that the Committee is very pleased to have your representation.

Mr. PICKERSGILL: I was just wondering if the members of the Committee would mind waiting for just a minute or two for a meeting in camera.

The CHAIRMAN: Would the members remain for a few minutes for an in camera meeting.



APPENDIX A-40

Submission  
of  
THE PROVINCE OF ALBERTA  
to  
THE STANDING COMMITTEE  
on  
TRANSPORT AND COMMUNICATIONS  
Regarding Bill C-231  
(By J. J. Frawley; counsel)

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GENERAL

The Province of Alberta offers no apology for its interest in transportation in all its forms. A glance at the map of Canada reveals the reason for that interest.

The distance factor in a rail freight rate from Toronto to Calgary is two thousand miles and from Montreal is twenty-two hundred miles. Although Vancouver is 642 miles further from Montreal than is Calgary, Vancouver's position on the Pacific makes available to it water competitive rates which are not available to Calgary. Traditionally, Calgary's rate on traffic which is water competitive is Vancouver's rate plus the rate Vancouver to Calgary.

The first Turgeon Royal Commission on Transportation gave effect to Alberta's objection to that kind of rate-making formula and recommended that the rate from Eastern Canada to Calgary or Edmonton must not exceed the rate to Vancouver plus one-third. The Railway Act was amended to so provide.

A tragically simple expedient shortly ended the life of the One and One-Third Rule. It was discovered that Agreed Charges need not be subject to the Rule because Agreed Charges are made pursuant to the Transport Act not the Railway Act and because the Rule had been laid down in the Railway Act it did not apply to Agreed Charges.

The Government of Alberta requested the Government of Canada to make the purely formal amendment required to remove the anomaly but was refused. Instead, the second Turgeon Commission was set up and its Report declined Alberta's representations. So our province went back to its place at the apex of the Canadian freight rate structure. As an example, canned goods from Eastern Canada pays \$2.00 to Vancouver while Lethbridge pays \$2.20 Calgary \$2.50 and Edmonton \$2.61.

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In the interim the applications of the railways to the Board of Transport Commissioners for freight rate increases had begun. Beginning in November, 1946, and ending in November, 1958, freight rates increased 157 per cent over the level of 1947 (MacPherson Report, Volume 1, page 15).

In September, 1958, the railways made what turned out to be the last application for a general increase in freight rates. The opposition of the Provinces was based chiefly upon the distortions in the freight rate structure resulting from the uneven application of the successive percentage increases. The distortions were such that a further increase would have been grossly unfair to those segments of the rate structure which consistently took the percentage increases. In this last rate case—the 17 per cent increase case—the railway's own exhibit showed that 73 per cent of the requested increase would be laid upon traffic producing 39 per cent of the revenue.

The Board of Transport Commissioners granted an increase of 17 per cent. The Provinces appealed to the Governor General in Council. After a full hearing by a Committee of the Privy Council the increase was permitted to stand but almost simultaneously two major announcements were made.

A subsidy of twenty million dollars annually would be put into the freight rate structure limited to those rates—the class rates and the non-competitive commodity rates—which for ten years had taken the brunt of the percentage rate increases.

This Government decision led to the enactment of the Freight Rates Reduction Act, Chap. 27, 7-8 Elizabeth II, dated July 8th, 1959. That statute brought about a reduction in the class and non-competitive commodity rates—the percentage reduction necessarily varying from period to period so as

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to consume the whole of the annual subsidy of \$20 million. And the statute and the Transport Board orders made thereunder declared that there were to be no further increases in these rates—the rates, as I have pointed out, which through 10 years of successive percentage rate increases had risen to 157 per cent of their 1948 level.

But the more important consequence of the 1958 rate increase was the setting up by Order in Council P.C. 1959-577 dated May 13th, 1959, of the Royal

Commission on Transportation. The Terms of Reference are worth re-reading at this time. Numbered first among several matters to be considered and reported upon was:

“(a) inequities in the freight rate structure, their incidence upon the various regions of Canada and the legislative and other changes that can and should be made, in furtherance of national economic policy, to remove or alleviate such inequities.”

The Royal Commission made its Report. The federal Government has translated its findings and recommendations into Bill C-231 of this Parliament and this Committee has the task of passing upon the acceptability of that Bill.

I wish to make it clear that to the Province of Alberta—land-locked and far from both buying and selling markets—by far the most important part of the Bill is Part V which contains the amendments to existing provisions as well as the new provisions respecting the rail freight rate structure.

The order of our comments will follow the subdivisions of the Bill into Parts I to VI. It should be pointed out that section 336 and certain other sections necessarily associated with section 336 will be the subject of a separate brief being presented to the Committee by Dr. Borts of Brown University, Providence, Rhode Island and Dr. Williams of Columbia University, New York City, jointly on behalf of the Atlantic Provinces and the Prairie Provinces.

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#### PART I

### CANADIAN TRANSPORT COMMISSION

The Report of the Royal Commission on Transportation upon which this piece of legislation is largely based recommended the setting up of a national Transportation Advisory Council. This Bill goes further. It would merge what the Government doubtless regards as the principal regulatory agencies of transport which are within the jurisdiction of Parliament into one comprehensive agency to be called the Canadian Transport Commission. Much of the function of the Report-recommended Advisory Council is to be assigned to the Commission.

At first examination, it would seem that both the administrative and regulatory machinery created by the Bill is unnecessarily complex. Lifted out of the cold print of the statute and put into motion it may fulfill the hopes of the draftsman. We make no protest. We offer no alternative.

Clauses 15 to 19 of the Bill prescribing the powers and duties of the Commission must, obviously, be read along with clause 53 which enacts section 336 and clause 70 which enacts sections 387A, 387B and 387C. These important provisions empower the Commission to determine costs. It need hardly be said that the Commission must set up a cost section which however much may be the expense involved, must be at least the equal in size and competence of the cost sections of the railways. If the new railway rate structure is to be cost-oriented for the protection of the shippers, the analysis of rail costs and the prescription of cost factors and methods for the use of the railways' cost officers will be the



most important function of the Commission. We would recommend the addition of an appropriate paragraph to cover the Commission's Cost Section to the clauses setting down the powers and duties of the Commission—clauses 15 to 18.

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## PART II

### COMMODITY PIPELINES

It would not be an overstatement to say that the Province of Alberta has had more experience than any other Province in pipelines, pipeline management and pipeline regulation and control.

In the light of that experience the Province holds the view that the provisions of this Part should be struck out of the Bill, in other words that the regulation and control of commodity pipelines be not committed to the new Transport Commission.

If, as and when the development of the concept of transporting commodities other than oil and gas by for-hire pipelines has reached a stage warranting regulation and control by public agency that regulation should be confided to the National Energy Board.

Alternatively, if our views in this respect are not accepted by this Committee we have the following observations to make.

1. The definition of commodity pipeline in section 3(b) is broad enough to include a pipeline constructed and owned by a shipper. An illustration might be the sulphur industry in Alberta. If the sulphur producers should wish to construct their own pipeline facilities so as to provide the cheapest possible transportation of their product to market, why should they not have the same freedom from regulation as has, for example, a factory in Western Ontario sending its products into Quebec by its own highway transport? The jurisdiction of the Transport Commission over commodity pipelines, if it is to be extended at all, should be limited to public carriers for hire or reward.

2. Would the Canadian Transport Commission with its major concern with railways use its authority under section 27(2) (a) to disallow a commodity pipeline tariff because the Commission found such tariff "not compensatory and not justified by the public interest"?

Emphasis is given to the reality of this concern by the disclosure in the Alberta coal operators' submission to this Committee on October 31st, 1966, that

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the current freight rate on coal to Port Moody for export is variable cost on actual carload weight of 142,000 lbs. actually used—plus 84 per cent. This calculation puts aside entirely what the rate would rise to if the fictitious costing on 30,000 lb. carloads required by section 336 were applied. Would the Commission regard a rate which carried a "burden" of 84 per cent a reasonable rate, notwithstanding that on United States lines the average burden factor in the coal freight rate is 7 per cent? If the Commission's cost analysts and advisers held such views then a pipeline rate for moving sulphur in slurry or in capsule by pipeline from Alberta to Pacific tidewater with a burden factor of, say, 25 per cent might well be a subject for disallowance as not compensatory.

If a heavy loading and low value commodity like Alberta coal for export must pay a rate which is 184 per cent of variable cost, the commodity pipeline might well be the solution of transportation not only of coal but sulphur, potash, iron ore and all other low value, bulk commodities which lend themselves to capsule transport by pipeline.

Upon this premise, it is relevant to ask the question: Should the power of rate disallowance be entrusted to a regulatory body which would contemplate with equanimity a rate on coal which makes a contribution of 84 per cent over variable cost?

By section 93 this Part is to come into force upon proclamation of the Governor in Council. There is no present urgency for this legislation and we urge that before proclamation the Department of Transport acquaint itself with the present state of the technology and the research. Contemporaneously further consideration could be given to the important question whether the control and regulation of the rates of interprovincial and international commodity pipelines should be committed to a railway-oriented agency.

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PART III

EXTRA-PROVINCIAL MOTOR VEHICLE TRANSPORT

As the draftsman's explanatory note accompanying these sections indicates, extra-provincial motor vehicle transport is now regulated along with intra-provincial motor vehicle transport by the Highway Traffic Boards of the Provinces.

In 1954 the Judicial Committee of the House of Lords declared in the *Winner* case that interprovincial motor vehicle transport—and even the intra-provincial operations of an interprovincial enterprise—was exclusively within the jurisdiction of Parliament. The Government of Canada forthwith convened a federal-provincial conference and made it clear that it did not wish to undertake the regulation and control of highway transport. The mechanics to which resort was had was to enact the Motor Vehicle Transport Act, Statutes of Canada 1953-54, Chapter 59, which conferred upon each provincial Highway Traffic Board the jurisdiction to regulate interprovincial highway traffic. In effect the provincial Board was made a federal agency for the purpose.

The Minister of Transport has made it clear that Part III of the Bill will not go into effect until there has been full consultation with the Provinces. That, of course, is as it should be. Without provincial consent there can be no satisfactory federal regulation of traffic which travels on highways which the Provinces build, maintain, control and own.

If the Government of Canada decides to "take back" the jurisdiction delegated to the Provinces in 1954, it is not unlikely that special consideration will have to be given to that aspect of the decision in the *Winner* case which held that embussing and debussing of passengers within New Brunswick was subject to

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federal jurisdiction because such acts were done in the course of an operation the regulation of which was exclusively federal by reason of section 92(10)(a) of the British North America Act.

Mention should be made of the litigation arising out of the Motor Vehicle Transport Act. Three cases are involved, one of which is still to be argued in the Supreme Court of Canada. We are sure that the Government of Canada will not bring Part III into force until the decision of the Supreme Court in the *Coughlin* case has been rendered. Until then, comments upon the feasibility of amendments to the federal statute to clear up the difficulties would be pointless.

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#### PART IV

#### BRIDGES

The explanatory note accompanying this Part states:

"The purpose of this Part is to change all the references to the Board of Transport Commissioners for Canada in the Bridges Act (Revised Statutes of Canada, Chapter 20) to the Minister of Public Works. That Act is concerned with safety and specifications in respect of bridges under the jurisdiction of the Parliament of Canada."

We have no comment.

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#### PART V

#### RAILWAYS, TELEGRAPHS AND TELEPHONES

We will comment upon those sections amending or adding to the present Railway Act with which our Province is particularly concerned.

##### Clause 39

A new section 45A has been added permitting representatives of provincial and municipal governments and of shipper associations to appear and be heard by the Commission.

While the word "may" in line 4 would probably, as in many similar instances, be interpreted as "shall" we share the view of the Canadian Manufacturers' Association that the right of the named representatives to appear should not be subject to the discretion of the Commission. The right should be an absolute right and to put the matter beyond doubt and to guard against possible discrimination, "may" should be changed to "shall."

##### Clause 42

#### Uneconomic Branch Lines and Unprofitable Passenger Services

This clause enacts:

- (a) new sections 314A to 314H inclusive relating to the abandonment of uneconomic branch lines and
- (b) new sections 314I and 314J relating to the discontinuance of unprofitable passenger services.



*Branch Line Abandonment*

The important consideration here is that the Minister of Transport has apparently obtained the consent of both railways to take action of the same nature and effect as an Order in Council under section 314G designating areas within which branch lines are not to be abandoned. The extent of the so-called "freeze" has been graphically demonstrated by the map showing the branch

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lines, the retention of which is guaranteed until 1975 and are not to be abandoned until that date. We assume that this map has been made a part of the records of this Committee.

The branch lines which are not guaranteed until 1975 and of which there are 330.8 miles in Alberta can be the subject of application for abandonment. The provisions set out in the series of 314 sections will apply where appropriate to such applications and it is to be assumed that all persons affected will have adequate opportunity to present their views.

As to the provisions for reimbursement to the railways for proved losses we make no comment. They would seem to complement the sections prescribing the conditions to be established before abandonment is ordered.

*Passenger Service Discontinuance*

New sections 314I and 314J spell out the procedure to be followed for discontinuance of passenger services which the railways allege are unprofitable. The procedure prescribed would seem to be adequate. An important provision is section 314J (7) which gives the Commission a considerable measure of discretion in accepting or rejecting items of cost or revenues submitted to establish loss.

We would recommend the addition of a requirement that before determining the guide lines to be followed by the railways in submitting costs and revenues for any of the purposes of the section 314 series the Commission will afford an opportunity to the public affected to make representations concerning the factors entering into the determination of costs and revenues. This applies both to branch line abandonments and passenger service discontinuances.

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*Clauses 44 to 47 inclusive*

I

These clauses as a group bring about the elimination from the Railway Act of sections 317, 319(3) and (4), 320, 322, 323 and 324. Those sections establish the fundamental proposition which originated in the Common Law of England that a common carrier must charge tolls and afford facilities without favoring or unduly preferring one user against another and without discrimination. That principle of the Common Law was embedded in the statutes of Parliament and the statutes of the provincial legislatures.

Sections 317, 319, 320, 322, 323 and 324 are repealed.

Short comments upon some of the repealed sections follow.

*Section 317* prohibits unjust discrimination. It requires

- (a) that tolls shall always be charged equally to all persons if circumstances and conditions are substantially similar;
- (b) that there be no discriminatory increase or reduction in tolls in favor of or against any user;
- (c) that tolls must not unjustly discriminate between different localities;
- (d) that, unless the Board is satisfied, no toll must be higher for a shorter than for a longer distance.

*Section 317* is repealed.

*Section 319 (3)* codifies the common law and supplements *section 317* by prohibiting undue preference. The section requires that no railway shall

- (a) give undue preference or advantage to any person or to any particular traffic;
- (b) make a difference in treatment in receiving or handling of goods in favor of or against any particular person or company;
- (c) subject any person or any traffic to undue or unreasonable prejudice or disadvantage;
- (d) unjustly discriminate against any industry, locality or traffic in car distribution.

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*Sections 319(3)* is repealed.

*Section 319 (4)* requires that interchanging of traffic between railways is to be carried out,

“without any such preference or advantage, or prejudice or disadvantage as aforesaid.”

The quoted words are to be repealed.

*Section 320* provides for the machinery by which the Board of Transport Commissioners shall determine the existence of unjust discrimination, undue preference or advantage or prejudice or disadvantage which is prohibited by *sections 317, 318 and 319*.

*Section 320* is repealed.

*Section 322* as summarized in the draftsman's explanatory note, provides that the burden of proving that a lower toll, or a difference in treatment, does not amount to an undue preference or unjust discrimination lies upon the railway.

*Section 322* is repealed.

## II

What does Bill C-231 enact by way of compensating the public, the shippers for

- (a) the removal of the ancient right to use the facilities of the common carrier without fear of unjust discrimination.
- (b) the removal of the requirement that all rates except those made to meet competition must first be approved by the regulatory body.
- (c) the removal of the obligation on the railway to first obtain an order of the regulatory authority before increasing class rates and non-competitive commodity rates?

What does the Bill provide to balance in the interest of the shipping public the much heralded "freedom" of the railways?

The explanatory note on page 33 of the Bill answers that question in part at least when it says:

"Section 317 requires that all tolls shall always under similar circumstances be charged equally to all persons and spells out this "equalization of rates" rule in some detail. This rule is being replaced by the compensatory rule under the *new section 334* and the provision of a maximum rate for captive shippers under the *new section 336*. (See clause 53). The *new*

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*section 317* would require a public inquiry to be held where the public interest may be prejudicially affected by the acts or omissions of railway companies or as a result of the new freedom in rate making."

We would comment:

1. The *new section 334* introduces no new principle. Rates always must be compensatory in that they must return variable cost and in addition a contribution, *however small*, to constant costs or overhead. Under the present Railway Act the Board of Transport Commissioners will always disallow a rate which failed to meet the foregoing test.

Section 334 therefore puts nothing into the scale to offset the abolition of the prohibition of unjust discrimination and undue preference.

2. *Section 336* which introduces Maximum Rate Control is so hedged around with fictitious and unreal restrictions as to make a travesty of what otherwise might have provided real relief for the shipper who because of the absence of *effective* competition is required to pay rates which contribute excessively to constant costs or overhead.

Further comment on section 336 follows later in this Submission.

3. There remains the *new section 317*. Shortly stated the section provides that any person who has reason to believe that a rate made under the new dispensation may *prejudicially affect the public interest* in respect of tolls or conditions of carriage may apply to the Commission for *leave* to appeal "the result" of the making of the rate.

If the Commission is satisfied that the applicant has made out a *prima facie* case of public prejudice, it may grant the applicant *leave* to appeal, i.e., to endeavor to establish that the rate in question prejudicially affects the public interest.

If leave to appeal is granted then presumably the applicant, now an appellant, assumes the burden of following through in the investigation which the Commission may undertake. In any event the section requires that a public hearing be held before the Commission makes its finding and that alone will mean an appreciable expense to the appellant.

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One can be excused for suggesting that section 317 seems to be deliberately drawn to assure that it will be little used except perhaps by large and wealthy corporations.

Let us consider the case of a small food processor in Southern Alberta who seeks relief from a rate to Eastern Canada made under the new rate-making freedom. Such a shipper would be compelled to establish that his rate prejudi-



cially affects the "public interest." What public interest? The national public interest? The provincial public interest? The public interest of the vegetable growing areas of Southern Alberta? Certainly he must establish more than a prejudice to the interest of his own business. The latter would have been his only concern under the protective provisions which have been abolished.

Why should there be so much concern, seemingly, to make it difficult and expensive for a shipper to complain about a prejudicial or discriminatory rate? Is it the result of a concern—as it is with section 336—for erosion of rail revenues to the exclusion of concern for the shipper?

It is our view that section 317 as drawn will be seldom if ever used and that it is a poor substitute for the protective provisions in the existing sections 317, 319, 320 and 328.

#### *Clause 53*

##### *New Section 336*

As has been indicated, this section will be discussed with the Committee by Dr. Williams and Dr. Borts who will appear before the Committee on behalf of the Atlantic Provinces and the Prairie Provinces.

We would, however, like to include some observations at this point.

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#### *Definition of Captive Shipper*

1. The section provides that the maximum rate control procedure shall be available to:

"a shipper of goods for which in respect of those goods there is no alternative, *effective* and competitive service by a common carrier other than a rail carrier" (Emphasis added.)

2. The Committee has heard it said repeatedly that if a shipper has market competition—and most shippers have—he is not captive within this section. This is a wholly untenable statement. There is not a word in the definition quoted which goes beyond carrier competition. Further, the quotations which follow from the MacPherson Report make it clear that existence of market competition has no place in the determination of captivity.

3. The important word in the definition is "effective". If the rail rate returns variable cost plus, say, 500 per cent then even though there exists an alternative truck service, that alternative service is not "effective". If it were effective the competing rail would not be able to exact a rate with such large contribution over variable cost.

The MacPherson Report spoke of "areas of significant monopoly" which needed protection.

The Report makes the situation clear as will be seen from the following quotations:

At page 94 of Volume 2 the Commission said:

"Nevertheless we found evidence that for some rail movements the rates were many times higher than costs, indicating that a significant degree of monopoly still exists in at least a few commodity areas. (Emphasis added.)

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and at page 99:

"It is our conclusion that maximum rate control can come closest to attaining these objectives and gaining these attributes if it is based on the variable costs of the particular commodity movement plus an addition above variable cost such as will be an *equitable share of railway fixed costs*." (Emphasis added.)

and at page 101:

"The function of maximum rate control is to place *limits upon the share of these fixed costs* the captive shipper must carry. The weight of the burden of inallocatable overheads determines the justice and reasonableness of the rate." (Emphasis added.)

Section 336 attempts to give effect to the foregoing observations in the MacPherson Report by providing that a shipper is captive to rail if there is no effective competitive service. To repeat, there is a complete absence of an "effective" competitive service if the railway can charge rates which are "many times higher than costs".

4. *Any shipper* who feels that his rate makes an excessive contribution over variable cost—true, actual variable cost—should be entitled to invoke the maximum rate control procedure, have his costs determined and a maximum rate fixed and quite appropriately section 336 subsection (1) so provides.

This is precisely what the MacPherson Commission meant when it said at page 104 of Volume 2:

"The decision to seek captive status must rest with the shipper. His reasons for initiating the action will be dissatisfaction with the rate he is forced to pay".

and also at page 105:

"Having received the maximum rate determination, the shipper then decides whether to *declare himself captive*." (Emphasis added.)

5. We have reviewed the shipper-protective provisions in the present Railway Act and have compared the protection lost with the protection gained, i.e., the new section 317 and the new 336. In our view neither section affords any protection whatever.

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*The Rate Determination Formula*  
30,000 lb. Carload

In the face of today's trend toward larger and larger capacity equipment what possible justification can there be for constructing maximum rate control upon the false foundation of a 30,000 lb. carload?

*150 Per Cent Contribution to Overhead*

There is no special magic in the use of 150 per cent as the amount to be added to variable costs as a contribution to the railway's fixed costs or constant costs or overhead.

The MacPherson Commission was concerned that there should be such an addition to variable costs "as will be an equitable share of railway fixed costs" (Volume 2, page 99). The contribution to fixed costs must provide the railway

with the funds required to pay all other than variable costs, including a profit on investment. For that reason there must be a definite relationship between what is permitted as a contribution above variable costs and the nature of the profit which it is desirable and acceptable that the railway should earn net after provision for all costs, variable and fixed.

What is the acceptable profit is a matter for determination by the Transport Commission after evaluation of actual—not fictitious—variable costs and of the company's fixed costs duly screened by the Commission's staff. When the Commission has determined the acceptable level of net earnings the fixing of the percentage contribution over variable which a maximum rate must make should not be a matter of particular difficulty for the Commission's staff.

In this regard we might well put the question: How can 150 per cent be "an equitable share of railway fixed costs" when you cost a 140,000 lb. carload shipment at 30,000 lbs. so as to assure that that shipment's costs will be not only fictitious but ridiculously high?

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Section 336 as it stands is useless. We are supported in that statement by the President of the Canadian Pacific who told the Committee that he could not think of any shipper who would use section 336. If Mr. Sinclair was speaking of section 336 as drafted—and he was—we agree with him unreservedly that the section will not be used. Certainly it will not be used by the shippers in the areas of significant monopoly which by the MacPherson Report's own definition are the shippers whose rates are many times higher than costs. Nor will it be used by those shippers of bulk commodities because the determination of a maximum rate based on 30,000 lb. carload costs would be purely farcical.

As the Committee is aware the Prairie and Atlantic Provinces sought cost data to enable their consultants to analyse and assess the meaning and effect of the system of maximum rate control which new section 336 introduces into the freight rate structure. The refusal of the cost data brought to a stop the discussions which the Minister of Transport urged should take place between our consultants and the officials of his Department. In view of the interest which the Minister took in those discussions the Provinces felt assured that the cost data required by our consultants would be furnished. It was refused.

Premier Roblin of Manitoba, Premier Thatcher of Saskatchewan and Premier Manning of Alberta wrote the Prime Minister on September 15th and said:

"the consultants retained by our counsel have made it clear that the lack of the cost data requested makes it impossible to meaningfully analyse the impact and effect of the rate-determination formula prescribed by section 336 of Bill C-231 either upon the so-called captive shippers or upon rail revenue.

.....

"We might add that the Parliamentary Committee itself would be quite unable to assess the effect of Maximum Rate Control without the cost data requested by us".

The appeal of the Premiers of the Prairie Provinces was to no avail.

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This Submission on behalf of Alberta wishes to align itself with the statements made by the Premiers of Manitoba and Saskatchewan that any real appreciation of the effect of section 336 is impossible without the cost data



establishing the cost differences between real costs and the fictitious costs which section 336 requires the Canadian Transport Commission to use in maximum rate determination. We urge the Committee to reconsider its support of the Canadian Pacific Railway in refusing to supply cost data.

We should like to adopt what the Canadian Manufacturers' Association had to say about section 336. The following is taken from the CMA Submission presented to this Committee:

"The following are examples of the compounding of these erroneous factors, that is the 15-ton carload base, the 150 per cent loading on variable costs, and the inadequate adjustment for heavy loads. Using accepted railway costing procedures, estimates have been made of the application of the Bill No. C-231 fixed rate formula to three well established published freight rates for iron ore. Here are the results:

- (1) A shipper whose established rate is \$2.68 per net ton would be offered the protection of a maximum rate of \$14.64 per net ton.
- (2) A shipper whose established rate is \$3.70 per net ton would be offered the protection of a maximum rate of \$23.49 per net ton.
- (3) A shipper whose established rate is \$1.46 per net ton would be offered the protection of a maximum rate of \$7.32 per net ton.

Obviously, the necessity to calculate on five times too many cars, compounded by the excessive loading of 150 per cent, makes the theoretical protection of such rates absolutely meaningless in these particular cases. Undoubtedly the same would be true in greater or lesser degree of a vast volume of bulk commodity captive traffic."

We urge upon the Committee to amend section 336 so as to

- (a) substitute actual variable costs for the fictitious variable costs which the Commission must use in determining the fixed maximum rate,
- (b) substitute for the 150 per cent contribution to be added to variable costs such percentage as would reflect a desired level of railway net earnings.

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If the Committee rejects this plea, then section 336 is a futility and it should not be enacted. It should be struck from the Bill. In that event and in common justice, those sections which remove prohibition against unjust discrimination and which remove the requirement of Commission approval of rates should be restored.

We resume our discussion clause by clause.

#### *Clause 54*

This clause is called to the Committee's attention because it sets up a just and reasonable rule for passenger tolls. For reasons that are not made apparent the Bill provides that the regulatory agency may—in effect shall—disallow a passenger toll found to be unjust or unreasonable and may prescribe other tolls in lieu of the tolls disallowed.

The protection afforded the user of the railways' passenger services is in marked contrast to the removal of the protection which has existed up to now for the user of the railway's freight services. The alleged protection afforded by the maximum rate control set up by section 336 is no protection at all.

*Clause 58*

Subsection (4) of section 341 is repealed. May I again quote the draftsman's explanatory note:

"Section 341 (4) places the burden of proof upon the railway to establish that there are greater costs involved in a joint carriage than in a single-line carriage, where the rates in the joint tariff exceed the rates in the single-line tariff. It is only in such a case that the higher tariff is permitted."

What possible reason could there be to abolish such a sensible provision? The present section protects a receiver located on one line with respect to goods originating on the other line.

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Section 341 affords a very real protection in Alberta where the whole of the province south of Calgary is served by Canadian Pacific exclusively and where conversely many parts of central and northern Alberta are served by Canadian National exclusively.

We strongly urge the retention of section 341 (4).

*Clause 61*

Here is a further example of the avowed intent of the Bill to remove each and every provision of the present Railway Act which protects the user of rail facilities.

This clause removes the long-standing power of the regulatory authority to permit—mark you, merely to permit—the railway to establish special rates designed

"to help to create trade, or develop the business of the company (i. e. the railway) or to be in the public interest and not otherwise contrary to the provisions of the Act."

Why must that salutary provision be removed? One might be excused for suggesting that there almost seems to be an "animus" in the meticulous care the draftsman has taken to set the railways "free" even from provisions to which they might wish to resort jointly for their own good and in the public interest.

*Clause 64*

This clause removes the power of the regulatory agency to disallow express tolls which are found to be unjust and unreasonable. Henceforth, like freight rates but unlike passenger tolls, express rates are merely to be filed. Presumably the user of express services can have resort to an attempt to show that the unjust or unreasonable rates he is being charged "prejudicially affects the public interest."

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*Clause 70*

New sections 387A, 387B, 387C  
relating to Commission Costing

The importance of the costing concepts and procedures to be set up by the Commission cannot be over-emphasized.

The proposed subsidies for uneconomic branch lines, for export grain rates and for passenger service deficits, the formulae for minimum and maximum rate determination—in all these instances there must be the most accurate analysis possible of railway costs.

The Western and Atlantic Provinces have spent a great deal of time and expended large sums of money in examining rail costs both in the decade of freight rate increases before the Board of Transport Commissioners, before the first and second Turgeon Royal Commissions on Transportation and before the second Turgeon Royal Commissions on Transportation and before the MacPherson Royal Commission. The Western and Atlantic Provinces legitimately represent the public interest in transportation. They are entitled to be heard by counsel and by cost consultants in public hearings before important and far-reaching decisions are made respecting the costing procedures to be established by the Commission.

We urge that amendments to sections 387A, 387B, 387C should be made to assure that right.

All of which is respectfully submitted.

Edmonton, Alberta,  
November 22nd, 1966.



## APPENDIX A-41

## SUBMISSION

on behalf of CCF Members of  
the Saskatchewan Legislature

by

WOODROW S. LLOYD  
Leader of the Opposition  
Province of Saskatchewan

to the

HOUSE OF COMMONS COMMITTEE ON TRANSPORT AND  
COMMUNICATIONS

concerning

BILL C-231

No province in Canada is more acutely aware of the need for an efficient and rational transportation system than Saskatchewan. No province is more vulnerable to its lack. Saskatchewan is a landlocked province, distant from both markets and major suppliers. The transportation system is, indeed, Saskatchewan's economic lifeline.

In Canada, transportation accounts for a greater share of Gross National Product than in any other country. It is, in its own right, an important part of our national economy. But more than that, it is a particularly vital instrument of development—a key tool in promoting Canadian growth and the welfare of the Canadian people.

In this context I view Bill C-231 as a distinct advance over earlier attempts, such as Bill C-120, to deal solely with railways. Bill C-231 is a desirable forward step toward a comprehensive national transportation policy. It provides the opportunity, if not the blueprint, for moving toward an integrated transportation system. This, too, is a desirable objective.

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However, I would be more confident about this bill if it more clearly established the concept that a transportation system should be built, maintained and improved to meet broad social and economic needs. Commercial viability—the profit and loss accounts of the owners—is important, but it is secondary. The effect on the balance sheet of the nation may be different from the effect on that of a private corporation.

Thus, transportation services cannot properly be considered within the limits of a single corporation or group of corporations. They cannot be judged on narrow economic factors alone. Transportation services must be shaped to meet the legitimate needs and aspirations of peoples in the broad regions of a vast country. It is here that action and control by the Government of Canada is essential.

The problem is not one of simply maintaining the status quo. The developing technology of transportation not only dictates change but, indeed, may offer opportunities for improving services at lower cost. Needs, too, change and demand new approaches. But the dislocations of change and the availability and costs of alternatives should determine the pace.

In the more detailed references which follow, there is heavy emphasis on railway services. This does not reflect a lack of concern about other modes of transportation on the prairies. It does, however, reflect our special concern for, and dependence on, railways.

### RAIL LINE ABANDONMENT

#### *Background*

The Committee will be familiar with the background of many of the developments of particular concern to Saskatchewan. In September, 1962, the C.P.R. made its first application in the current series for the abandonment of a

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branch line. This was followed shortly by several more individual applications. It became clear that Saskatchewan, in particular, was to be the scene of extensive piecemeal branch line abandonment. Many Saskatchewan people viewed the railway's claims of uneconomic operations with some skepticism.

The then Government of Saskatchewan called a conference in Regina on December 20th, 1962, which was attended by representatives of the three prairie governments as well as representatives from farm, grain handling organizations, chambers of commerce and local governments from the three provinces.

The conference called for an immediate halt to rail line abandonment. A four point resolution was also introduced by the non-government organizations present and passed with full support by the Saskatchewan Government and with general support from the other two governments. It was as follows:

"This conference agrees to:

1. Call for an immediate stop to the present piecemeal consideration of rail abandonment. This means that the federal government must be asked to act either by order-in-council or legislative amendments to change the terms of reference of the Board of Transport Commissioners to halt their piecemeal consideration of rail abandonment proposals. This also means that the federal government must be prepared to offer an alternative to the present terms of reference of the Board.
2. Urge from the federal government a clear statement of its acceptance of responsibility and of its intended policy. This means that we urge the federal government to accept major responsibility in the whole question of rationalization.
3. Call for initiation by the federal government of a planned rail rationalization program, the implementation of which includes immediate study to take into account the general interests of the Canadian economy and the special interests of the transportation media, the prairie sector and the agricultural industry. The end product of the study would be to implement a rationalization program in the west to

accommodate the railways, the farmers, the grain handling industry and the broad economic and social interests of the people of the three provinces.

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4. Recognize publicly the need for a rationalization program and admission by each participating organization of responsibility to work towards solution of the problems. We must recognize the existence of related problems and admit responsibility both individually and collectively for working towards their resolution."

Continued pressure from both government and non-government organizations was undoubtedly a factor in bringing to a halt the piecemeal approach to abandonment. After the introduction of Bill C-120, representations from both government and non-government bodies resulted in further reconsideration by federal authorities.

The people of Saskatchewan view current rail transportation problems from two standpoints. First, if Saskatchewan is to make its full contribution to the Canadian economy, it must be equipped with the transport services necessary to enable it to produce efficiently. Second, Saskatchewan residents expect to have an adequate standard of services available to enable them to develop and maintain vigorous and healthy communities. They do not expect to be required to bear the brunt of past mistakes and failures in planning the development of transportation services in Canada.

#### *Prairie Rail Network*

On September 12th last, the Federal Government issued a statement of policy respecting the rail network in the prairie provinces which the railways will not be permitted to abandon prior to January 1, 1975. In many respects this announcement was welcomed in Saskatchewan. It did provide assurances of continued operation for a limited period at least of some lines where applications for abandonment had been filed.

However, there are some aspects of this policy statement which require further examination:

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1. This guarantee, which it appears has no legal basis as yet but will be given effect under Section 314G, will be effective for eight years to January 1, 1975. This date appears to be quite arbitrary. At the same time, the role of the Commission with respect to the guaranteed network is somewhat clouded. The Bill makes provision for "area" or regional examination of railway needs by the Commission. With respect to the prairies, the government's commitment to a guaranteed network appears to have prejudged the work which the Commission is supposed to do. I suggest that the scope of the Commission's authority to alter the network should be clarified.

2. The announcement by the Minister of Transport stated that there were consultations with elevator groups, railways and provincial authorities. It is to be regretted that the government did not as well consult with other interested groups, such as the Saskatchewan Farmers Union, urban and rural municipal associations and business representatives in affected communities.

3. News reports at the time of the policy announcement indicated that the general criterion used in selecting lines for continuation was the production of



50,000 bushels of grain per mile. Before this Committee on October 6th, the Minister of Transport admitted that, in the end, the process of choosing lines for guarantee or non-guarantee was arbitrary. Two points arise. First, what is the rationale for a 50,000 bushel figure? I suggest that it should be made public. Second, if in the final analysis decisions were arbitrary, this reinforces the need to consult other interest groups as I have already suggested.

4. Information provided by the Canadian Wheat Board shows that there are almost 6,800 Wheat Board permit holders at elevator points on the unprotected lines. In addition, it is known that a considerable number of farmers, who would

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prefer to deliver grain to these elevator points, have switched their permit books to other less convenient and more distant elevator points because of the poor service on some of these lines.

5. If the 50,000-bushels-of-grain-per-mile standard was used as a guide in determining guaranteed and non-guaranteed lines, it would appear that there was little consideration given to future growth in loadings. The long-run trend in grain shipments is increasing significantly. This demands some consideration in determining government policy.

*Lines Not Protected by Government Guarantee*

The Committee will be aware of the increased level of marketings in recent years. Data for individual elevator points for 1965-66 and the current crop years are not yet available. However, some analysis of data prior to that time may be of interest to the Committee. As an example, I wish to cite data for a short line to Stewart Valley near Swift Current. Trains to this point travel east on the C.P.R. main line from Swift Current for several miles and then turn north for a 20-mile run to Stewart Valley, approximately 5 miles south of the South Saskatchewan River. Country elevator receipts at the points on this line were as follows:

	1962-63	1963-64	1964-65	Average to 1964-65	
	(thousands of bushels)			3 year	10 year
St. Aldwyn .....	113	148	99	120	129
Leinan .....	278	289	225	294	266
Stewart Valley .....	451	622	436	503	480
Total .....	842	1,059	760	917	875
Bushels/mile .....	42.1	52.9	38.0	45.8	43.7

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It is noteworthy that elevator receipts in 1963-64 were over 50,000 bushels per mile. Receipts in the 1965-66 and current crop years will likely be near or above the 1963-64 level.

These data do not include other traffic on these lines nor do they contemplate potential traffic undeveloped because of poor service. There are a number of examples of poor service, particularly on those lines earmarked for abandon-

ment. I would suggest that the Committee obtain information from the railroads on train operation on those lines not protected by the government statement of policy.

The Minister of Transport has indicated that, in two or three places, abandonment "would make no sense on the unprotected lines". Surely, this is an indication of basic defects in the government's approach. If the government's criteria, combined with its arbitrary judgment, fail to protect lines which should not be abandoned, something is obviously wrong.

Why should a government statement of policy be based on what was apparently a single measurement—bushels of grain per mile of line—plus the application of arbitrary judgments. Why should not factors such as distance from rail be considered? I have the honour to represent Biggar constituency in the Saskatchewan Legislature. Three railway lines in this area are on the list of unprotected lines. In all three cases, applications for abandonment had already been filed. If these applications are granted, some people in the Biggar constituency will have to haul grain and other produce over 30 miles to market.

Finally, I find the provisions of Sections 314F and 314H respecting existing abandonment applications quite unsatisfactory. Obviously some disposition has to be made of applications for abandonment now on file. The legislation provides that such applications will be dealt with under present Section 168 of the

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Railway Act in accordance with related regulations unless *the railways* opt to have the application considered under the new Act. Why should such a choice be available to the railways? To be sure the Minister of Transport told the House of Commons that the Presidents of the railways told him they would withdraw the applications the day the legislation is passed by Parliament. I do not doubt the word of either the Minister or the Presidents. But no such assurances can hide the fact that the railways are backing away from a position while continuing to use the applications on file as a weapon. This is, in my view, a poor way to deal with legislation. It would be much more sensible and would help to build confidence in the new legislation if the bill stated clearly that all applications for abandonment on hand *shall* be either withdrawn or considered under the new Act.

#### *Hudson Bay Route*

Abandonment of some unprotected lines would have other serious effects. For instance, abandonment of the CNR Aberdeen-Melfort line, which is not now protected, will clearly be detrimental to shipments via the Hudson Bay Route to the Port of Churchill. Grain rates to Churchill along this line are two to three cents per cwt. less than to the Lakehead. This advantage will be lost to many farmers if they are required to use alternate shipping points. Any abandonment which increases farmers' grain transport costs or which interferes with the full development of the Hudson Bay Route would be a serious disservice to prairie agriculture. On the contrary, we would like to see railway planning which will encourage use of the Port of Churchill.

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*Legislative Provisions Respecting Procedures for Abandonment*

Proposed procedures now before Parliament constitute a marked improvement over previous proposals. However, a number of further improvements are needed.

1. Section 314C makes public hearings optional with respect to applications for abandonment. In my view, people in the communities affected by abandonment applications have a right to present their cases and be heard by the Commission. I believe they should be guaranteed the opportunity to do so. I strongly urge that public hearings on an area basis be mandatory.

2. One important reason for public hearings is to give all interested parties an opportunity to present their views on costs and costing. An example of the value of such an opportunity was cited in the brief of the Canadian Co-operative Wheat Producers Limited to this Committee:

"In 1960 when the railways presented an argument to the MacPherson Royal Commission based on a costing study undertaken on the basis of 1958 railway operations the Wheat Pools joined with United Grain Growers and commissioned a firm of United States economic consultants to advise us on the soundness of the railways' case. The consultant looked over the railway costing argument which sought to show that in 1958 the railways had lost a total of \$70 million on their carriage of Prairie grain to export positions under the statutory Crowsnest Pass rates and the argument was that to improve the railway position all that was necessary was an increase in the Crowsnest rates, an increase they suggested of from 100 to 125 per cent. Our consultant said it was difficult to isolate railway traffic for costing but by using the railways' own figures and formula he demonstrated to the Royal Commission that railway losses during 1958 were \$255 million for passenger services and \$51 million for LCL freight. The original railway case had not mentioned those items."

3. Section 314B gives the Commission power to designate areas for examination in considering applications for abandonment. However, the Commission is not required to use an area approach. I suggest that serious consideration should be given to an amendment that would require all abandonments—with the possible exception of some categories of spur lines—to be considered on an area

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basis. This legislation cannot be considered a full step on the road to rail rationalization unless the legislation stipulates an area approach.

4. I support the provisions in Section 314B (3) and (4) requiring the railways to file adequate financial information with abandonment applications and, after study, giving the Commission full authority to post its report on the submissions in stations along the line concerned. I also support the requirement to publish amounts of payments with respect to uneconomic lines as contained in Section 314E (5).

5. Section 314C (1) states that after a line under consideration has been found "likely to continue to be uneconomic", the Commission shall determine "whether the line should be abandoned immediately or after a period allowing



for adjustments in the area served by the line". This particular wording would appear to suggest that the Commission has no alternative but to order the abandonment of the line at some time. If so, it is certainly contrary to the spirit of the bill and specifically Section 314C (3) and following sub-sections. Such wordings should be examined carefully by the Committee to avoid possible ambiguities or inconsistencies and to ensure that the intent of this section is not inadvertently weakened.

6. Section 314C (3) sets out the criteria to be used by the Commission in determining whether uneconomic branch lines are to be abandoned. The broad principle set out in the preamble of this sub-section represents a significant forward step in transportation legislation. I have some reservations, however, about the effect of the clauses which follow. I recognize that they do not legally limit the generality of the preamble. Nevertheless, the direction provided by a specific list of factors does in fact tend to exclude others from consideration. Thus, I think this list is worth testing for adequacy and comprehensiveness.

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In this regard, I wish to direct the Committee's attention to a resolution passed by the First Saskatchewan Conference of Local Railway Retention Committees on November 22, 1963. The resolution reads in part as follows:

"Therefore be it resolved that any Board of Inquiry appointed by the Government of Canada to study the rational reorganization of railway plant in Western Canada be specifically required to study the following economic and social costs of rail line abandonment.

1. The cost of extra distance farmers will have to haul grain.
2. The cost of reorganization of the market grid road system and provincial highways.
3. The reduction of municipal taxation and the financial position of municipalities.
4. Capital losses which may be suffered by businesses in towns, villages and hamlets as a consequence of a branch line being abandoned.
5. Depreciation of land values.
6. The necessity of compensation for municipal services such as relocation of grid roads which are directly consequent on abandonment.
7. The impact of abandonment on schools, hospitals, old peoples homes, and other social services or institutions.
8. Whether or not mineral rights or other advantages held by railway companies as a result of land grants given to build rail lines should revert to the Crown if the branch lines are abandoned, and used for compensation."

Some of these costs could be considered under clause (e) dealing with economic effects. However, this is by no means certain. In addition, item 7 (schools, hospitals) may be considered a social factor, not included in the factors enumerated in 314C (3). I urge the Committee to broaden the list to include social factors and effects. Without such direction, the admitted difficulty in measuring such effects may tend to exclude them from consideration.

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I wish to stress particularly the need to consider added production costs to the farmer. A greater distance to markets and services means higher operating

and capital costs for the farmer. For many it will mean larger and more expensive trucks. For all it will mean added hours in moving produce to market. Such additions to costs will further intensify the pressures on and problems of the small farmer. Thus branch line abandonments would help accelerate the trend to larger, but not necessarily more economic, farms and to larger, but not necessarily more socially productive, communities.

7. Section 314D gives the Commission power to recommend steps for rationalization and reorganization of operations to the railways. This is a desirable section, but I am certain I do not need to remind the Committee of the potential of the Canadian National-Canadian Pacific Act, which failed to be realized because it was ignored by the railways. I would suggest the Committee examine ways and means of strengthening the Commission's powers in this section.

8. I wish to register my support of the recommendation by the National Farmers Union to this Committee that Parliament consider compensation payments on losses which will be suffered by holders of rail-tied investments on abandoned branch lines. Further, I would recommend that in considering compensation, provision should be made for added road construction costs resulting from abandonment. Such compensation could be allocated to local authorities through provincial governments.

9. Where rail lines are abandoned, I would suggest that the lands involved revert to the province.

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#### FREIGHT RATES

People on the prairies do not have faith in the proposition that "free market" competition in freight rates will necessarily protect their interests. This lack of faith springs in part from the railways' historic monopoly position on the prairies. Too, past performance by the railways, exemplified by inadequacies of service and a rigid approach to rates, has contributed to a lack of confidence on the part of prairie people. The railways' attempts in recent years to recapture lost traffic by lowering a variety of rates has tended to confirm the suspicion that railways have heretofore taken full advantage of their monopoly position. Furthermore, the "managed" nature of much of today's economy makes the anticipated return to classical competition something less than likely.

It is also true that governments today are turning anxious eyes to production costs and production efficiencies. They have found it necessary to apply some restraints and some direction. Since transportation expenditures constitute such a significant part of Canada's gross national product, it seems unrealistic to remove these expenditures from public supervision to the extent contemplated in Bill C-231.

Governments today are deeply concerned with matters of regional development and relative growth between regions of Canada. That some regions have benefited more than others from past national policies is an undisputed fact. We submit that to shift rate-making decisions from public hands into the hands of corporate interests to the extent proposed in this bill will contribute to a growing rather than diminishing spread between the regions of Canada.

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Finally, there is the fact of monopoly—at least on the prairies—in an industry in which the public interest is paramount. Canadians have recognized

the need for public control of rates in similar situations, for example the Bell Telephone Company. We submit that, where monopoly exists, the need for overriding public control of rates is no less in the field of transportation than it is in communications.

Serious doubts have already been expressed to the Committee about the inadequacy of provisions respecting rate controls. I urge the Committee strongly to heed the recommendations already made for further study of this question and to give particular attention to the following:

1. To consider retention of Section 317 of the present Railway Act which prohibits railways from exercising discrimination and preference between shippers. This section is needed particularly in view of the unsatisfactory features of Section 336 in Bill C-231 which attempts to provide some protection for captive shippers. In any case, Section 317 of the present Railway Act should remain in force and be the governing factor until such time as a maximum rate is established under Section 336 in Bill C-231. The Committee has received information concerning the high proportion of shipments which is attributable to a very small number of shippers. They have the economic power to protect themselves. Such is not the case with the thousands of other shippers who have no real economic power. Fears have been expressed that these shippers will be "thrown to the wolves". I submit that these shippers deserve consideration and that the Act should be designed not for the railroads alone but for the average shipper and the Canadian consumer.

2. To review the concern which has been expressed that the precise wording of Section 317 (1) in Bill C-231 does not provide an adequate opportunity for the

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small shipper to obtain redress. This section provides an opportunity for an appeal against rates that "may prejudicially affect the public interest". The Wheat Pools' brief to this Committee summed up the concern as follows:

"We're simply not certain that this kind of arrangement is good enough for an area like the Prairies where there is really no effective competition to the railways and where many shippers are too small to be able to afford the opportunity for redress provided in Bill C-231."

3. To restudy Section 336 (2) in Bill C-231. This section gives the Commission powers to establish rates for captive shippers at 250 per cent of the variable cost of the carriage of the goods. I am totally in agreement with the suggestion that this provision requires further study and that an interim arrangement should be provided until the study is completed.

4. To consider modifying the rigid standard of carloads of 30,000 lbs. applied in calculating variable costs when determining rates for captive shippers. This is a serious handicap in calculating costs for heavy loading commodities where the variable costs in fact will be appreciably lower. A more flexible approach is needed to take account of load differences.

5. To provide for a periodic review of those sections relating to rate control and appeals. Their application will be the critical factor. Suggested improvements in the bill will still leave many unresolved problems. Hence, I am in agreement with the proposal that these portions of the legislation should be reviewed within a reasonable time but in no case more than three years after coming into force.



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## CROW'S NEST PASS RATES

Transportation costs are a sizeable bill for the prairie farmer. In some years the freight bill for grain movement approaches \$100 million.

Attempts have been made by the railways in the past to demonstrate that the Crow's Nest Pass Rates were the cause of much of their difficulties. Indications are, however, that increased grain movement in recent years, bringing with it increased profitability, has changed the outlook of the railways considerably. In coming years there will undoubtedly be market fluctuations in grain movement dependent on both production and markets. If the fluctuations are downwards, will the railways once again attack the rate structure? The fact is that grain production on the prairies shows a long-run growth pattern.

*Average Annual Acreage, Yield and Production  
Saskatchewan Wheat Production, 1910-1966*

Period	Acreage (acres)	Yield (bushels)	Production (bushels)
1910-19 .....	7,220,400	16.50	115,059,400
1920-29 .....	12,913,600	16.57	214,524,000
1930-39 .....	14,276,900	10.41	149,021,900
1940-49 .....	13,512,900	15.17	203,290,000
1950-59 .....	15,460,400	19.25	297,630,000
1960-66 (7 years) .....	17,797,100	20.80	375,000,000
1966 .....	19,700,000	27.7	546,000,000

Improved grain varieties, increased use of fertilizers, better equipment and better management practices can all expect to contribute to significant increases in grain production in future years.

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I share the view of those who have said the Crow's Nest Pass rates have not yet been shown to be uneconomic.

The bill before the Committee provides for a study of the Crow's Nest Pass Rates by the Commission to determine if there are losses. Any losses determined would become the basis for subsidy payments. I will welcome such a study, provided the scope of the enquiry is broad enough.

I urge the Committee to consider amendments to ensure inclusion within the scope of the enquiry, the following features:

1. Opportunity for interested parties to present their views to the Commission.

2. Ensure that CPR revenues include profits accruing from concessions and grants related to the development of western lines and the Crow's Nest Pass Rates.

The latter point has already been emphasized before the Committee by the National Farmers Union. The success of the CPR in segregating from rail revenues its revenues from concessions and grants has not gone unnoticed in Western Canada.

## PASSENGER SERVICES

The Committee has made an exhaustive investigation on the adequacy of CPR passenger service. The complexity of this matter is illustrated by the fact that the Committee has only been able to submit an interim report. However, the recommendations for improvements in service were welcomed by many people, particularly in Saskatchewan.

Nothing could illustrate the inadequacy of CPR passenger service better than a letter that appeared recently in a Regina newspaper. A copy of the letter was sent to me. It reads as follows:

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"Indian Head, Saskatchewan,  
October 25, 1966.

The Editor

## Service on the CPR?

There are eight of us in our family, between the ages of sixty-six and eighty-five. We had not been together in forty-five years, so chose a central place for the gathering. One lives in California, one in Ontario, one on Vancouver Island, one on the Mainland, the others were Alberta and Saskatchewan.

They came by bus, car, plane, and Canadian National train. All got there except the ones who were living on the mainline of the Canadian Pacific.

'Tho they had made their reservations two days before, and been waiting at the station an hour and twenty minutes (as the train was late) the train never stopped and by the time they could make other transportation arrangements, some of the family had left for home.

Passenger service not paying? Why?

E. Stewart."

Your Committee is aware of the imaginative efforts of the CNR to secure more passenger business. I welcome this development and trust that this program will be continued and extended. I would only hope the CNR will extend its new passenger program to some of the passenger runs it abandoned not too long before it embarked on its new approach.

Bill C-231 will assist to stabilize present passenger operations. It is to be hoped that a continuing review of passenger services will be provided for. One point of justification for public participation in stabilization of passenger services arises from the problem of highway traffic safety which is causing increasing concern to many people.

In the final analysis, however, the success of passenger operations is strongly influenced by the desire of the railways to be in the business and make a success of it.

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## SUBSIDIES

The facts of Canadian geography make transportation a key factor in the economy, and an ever present problem in the economic process. The facts of Canadian history compounded the problem. The structure of the Canadian nation today is such that communications and transportation also have many over-riding social implications. The need for bulk transportation facilities necessitates special attention to rail facilities in many parts of Canada.

Such is the essence of the criteria for public expenditures for rail services. A first principle in the provision of transport resources is that they should be maintained or improved to meet broad social needs. A recent British white paper on transport policy stated: "Commercial viability is important but secondary".

A second principle enumerated in this White Paper is that socially desirable but unprofitable services will get an open and continuing subsidy. I am in basic agreement with the application of this principle in Bill C-231. As long as the railways maintain a vigorous and imaginative approach to providing service, I am confident that a full accounting of services operated at a loss will not result in a burdensome level of subsidies. The expenditures involved will in most cases result in benefits that will be more than compensatory.

The provision of these subsidies, however, does impose an obligation on the railways to provide more than a minimum level of service. The railways will have an obligation to provide an adequate level of service that develops traffic potential. An underlying consideration is that railway companies were given rights to certain operations and the privilege of providing transportation services. The consequent obligations must be given full force in parliamentary enactments.

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Parliament, in providing subsidies, must be certain that it has all the facts before it. The Commission will, of course, make its studies available to the government. However, the legislation provides only for railroad data as a basis for Commission studies. The Committee is aware of misgivings in many quarters concerning railroad data. Consequently, I suggest that in all cost studies, full opportunity be accorded other interested parties to express their views and that this be included in the legislation.

Bill C-231 calls for the removal of the "Bridge Subsidy" over a three year period. I wish to draw the attention of the Committee to comments in the Government of Saskatchewan Policy Statement on Bill C-120 submitted on February 3, 1965:

"...In round figures it is estimated that Saskatchewan shippers or receivers benefit by the Bridge Subsidy in the order of \$1.3 million annually.

"The Bridge Subsidy may be a crucial factor in our market for sodium sulphate in Eastern Canada as price reductions may be necessary to meet new technical developments in the pulp industry. The 'Subsidy' is a substantial proportion of the freight rates on salt cake and potash moving into Eastern Canada. These commodities are in close competition with United States and foreign imports.

"Farm machinery moving from Eastern Canada to Saskatchewan receives the benefit of the 'Bridge Subsidy' which amounts to 10% of the total rate."

In view of the impact on several industries as noted, I wish to express concern over the removal of the Bridge Subsidy even though it is to be reduced in stages. In particular, I am concerned about any addition to the cost of farm machinery sold in Saskatchewan. The effect of the removal of the Bridge Subsidy added to already escalating prices of farm machinery will continue to add handicaps to the agricultural industry.



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## ADMINISTRATION AND OPERATIONS

I wish to draw three points to your attention for consideration.

1. It is essential to take account of regional and special interests in establishing a national transportation policy. An advisory body to the Canadian Transport Commission made up of representative users would be a most useful adjunct to the Commission. I support the recommendations of the Canadian Co-operative Wheat Producers in that regard.

2. I also wish to support the recommendations of the Wheat Pools about the necessity of maintaining a continuing review of the application of the new Act. I agree with their references to Parliament's need for full and comprehensive information from the Commission.

3. The Wheat Pool brief made a number of comments respecting the coming into force of the new legislation. I wish to support these comments and urge the Committee, in turning over this new leaf in transportation legislation, to ensure that all outstanding matters be considered within the framework of the new Act. Provision should be made that during the transition period (while the application of the new legislation is known but not yet in effect) nothing could be done to the disadvantage of rail users which the new legislation would have prohibited had it been in force.

## THE CANADIAN PACIFIC RAILWAY

The Committee is aware of the extent of aid granted to the Canadian Pacific Railway Company and other companies now comprising the system. To recapitulate briefly, land grants from all governments to December 31, 1965, totalled almost 44 million acres; cash subsidies plus expenditures on construction of lines turned over to the CPR totalled \$106.3 million; and significant municipal tax

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concessions. A request that the federal government do away with those municipal tax concessions was presented in a joint memorandum from the premiers of the three prairie provinces in March, 1964. I am grateful to note that some action is now being taken. However, I am puzzled as to why the payment of full municipal taxes by the CPR should be delayed.

The charter granted to the Canadian Pacific Railway together with grants and other aid to the company constituted a chosen instrument by the governments of the day for effecting economic development. There is little value in discussing the merits or demerits of this particular choice of instruments at this point in time. The charter and the aid are facts. But, so is the commitment made by the CPR in return for the rights contained in the charter and the aid given. It has been stated before this Committee, and I reiterate the view, that the CPR's commitment is a total commitment in terms of services to be provided henceforth. The CPR can't have it both ways. It cannot, on the one hand, try to retreat from its commitments while, on the other hand, it tries to maintain the sanctity of the other side of the bargain.

Furthermore, for some time the CPR has argued that revenues from associated enterprises created largely from aid given to it should be divorced from rail revenues. In my view, this stand is completely unjustified. In some ways though, the CPR can't be blamed for using this approach as long as it can get away with it. It will probably continue using this approach as long as the Canadian people allow it to do so.

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Indeed, the very nature of this corporate enterprise is such that profit maximization must be its primary goal. However, this Committee, Parliament and the people of Canada must view transportation matters in a broader context; that is in terms of the overall economic and social costs and benefits of transportation services. The needs of Canada must be the primary concern.

The economies of co-ordination and rationalization must be considered within this context. The desired objectives of efficiency and service will not be achieved in the rail sector by a privately owned system nor by a system that is split into two separate segments; one privately owned and the other publicly owned.

I would have greater confidence in achieving the desired objectives of our transportation policy if, as a first step, the CPR were nationalized and operated as a publicly owned system. In deciding on compensation for nationalization, the grants and aid given to the CPR should not be overlooked.

The public ownership of the CPR is desirable in order to integrate rail transportation services; to avoid wasteful competition; and, to make the best use of existing lines and facilities. This has always made sense. It makes more sense under today's conditions. It is a first step in the nationalization of transportation services.

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### SUMMARY OF RECOMMENDATIONS

On behalf of the CCF Members of the Saskatchewan Legislature, I respectfully request the Committee to give consideration to the following recommendations:

#### *Prairie Rail Network*

1. That, considering the obligation placed on the proposed Commission to conduct regional studies of rail transportation needs, the scope of the Commission's authority to alter the government's guaranteed prairie rail network, be clarified.

2. That the basis for applying the measurement of 50,000 bushels of grain per mile, in determining which lines were guaranteed, to be made public.

3. That, if the above measurement is to be applied, consideration be given to evidence that the long-term trend in grain shipments is moving upward.

#### *Hudson Bay Route*

4. That, with respect to lines not now protected, careful consideration be given to the impact on the full development of the potential of the Hudson Bay Route of any contemplated abandonment.

#### *Proposed Procedures Affecting Rail Line Abandonment*

5. That the bill clearly provide that all pending and future applications for abandonment will be determined under the provisions of the new Act, not under the present Railway Act.

6. That the Commission be required to consider all applications for abandonment (with minor exceptions) on an area basis.

7. That public hearings on an area basis be mandatory with respect to all applications.

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8. That the wording of Section 314C (1) be carefully reviewed to remove any implication that the Commission has discretion only as to the timing of abandonment with respect to lines found "likely to continue to be uneconomic".

9. That the criteria to be applied in considering applications for abandonment, as set out in sub-section 314C (3), be broadened to give full consideration to social as well as economic costs, and to give adequate recognition to resulting increases in production costs of farmers.

10. That the Committee consider ways and means of strengthening the Commission's powers to accomplish railway rationalization under Section 314D.

11. That the Committee consider payment of compensation for losses from abandonment to holders of rail-tied investments, and that possible methods of reimbursing municipalities for the cost of required road construction be explored.

12. That where rail lines are abandoned, rights of way and associated railway lands revert to the province.

*Freight Rates*

13. That, in view of the monopoly position of the railways, particularly on the prairies, the new legislation make provision for over-riding public control of all freight rates.

14. That, until such time as the Commission establishes a maximum rate under Section 336 of the Bill, Section 317 of the Railway Act be retained to provide some protection for captive shippers.

15. That the Committee give further study to:

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(a) the effectiveness for the small shipper of the opportunity provided for redress under sub-section 317 (1); and

(b) the procedures for establishing rates for captive shippers under sub-section 336 (2).

16. That the Committee consider modifying the rigid standard of carloads of 30,000 lbs. applied in calculating variable costs when determining rates for captive shippers.

17. That the legislation provide for a review within three years of sections relating to rate controls and appeals.

*Crow's Nest Pass Rates*

18. That the Committee consider amendments to ensure that any study of the Crow's Nest Pass Rates will:

(a) provide opportunities for interested parties to present their views;

(b) give full consideration to the concessions and grants awarded the CPR as they relate to the development of western lines and the Crow's Nest Pass rates.

*Subsidies*

19. That, in all cost studies related to subsidies, cost data submitted by the railways be opened to scrutiny by interested parties in hearings before the Commission.



20. That the Committee examine the impact of the removal of the bridge subsidy on certain industries vulnerable to freight rate changes and that particular attention be given to the impact on farm machinery price.

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*Administrative Matters*

21. That Parliament consider establishing an advisory body to the Canadian Transport Commission made up of representative users.

*CPR*

22. That, as a first step toward integrating rail transport services, Parliament give serious consideration to nationalizing the Canadian Pacific Railway. November, 1966.



HOUSE OF COMMONS

First Session—Twenty-seventh Parliament

1966

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 40

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THURSDAY, NOVEMBER 24, 1966

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Respecting

BILL C-231

An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions.

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WITNESSES:

*Representing the Provinces of Manitoba, Alberta and the Maritimes:* Dr. Ernest W. Williams, jr.; Dr. George H. Borts; and Dr. Donald Armstrong, Economic Advisor to the Committee. *From the Department of Transport:* Honourable J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister; Mr. Jacques Fortier, Director of Legal Services and Counsel.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H.-Pit Lessard

and

Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Fawcett,  
Mr. Groos,  
Mr. Horner (*Acadia*),

Mr. Howe (*Wellington-  
Huron*)  
Mr. Jamieson,  
Mr. Legault  
Mr. MacEwan,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. O'Keefe,  
Mr. Olson,

Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

NOTE: The Report to the House on Bill C-231 will appear in the last issue of the Committee, namely, No. 41, as well as in *Votes and Proceedings* after tabling.

R. V. Virr,  
*Clerk of the Committee.*

## MINUTES OF PROCEEDINGS

THURSDAY, November 24, 1966.

(72)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Fawcett, Groos, Howe (*Wellington-Huron*), Jamieson, Legault, Lessard, Macaluso, McWilliam, Nowlan, O'Keefe, Olson, Pascoe, Reid, Rock, Schreyer, Sherman, Southam (23).

*Also present:* Honourable J. W. Pickersgill, Minister of Transport.

*In attendance:* *Representing the Provinces of Manitoba, Alberta and the Maritimes:* Dr. Ernest W. Williams, jr.; Dr. George H. Borts; and Dr. Donald Armstrong, Economic Advisor to the Committee.

The Chairman introduced the witnesses and invited Dr. Williams to summarize his brief. The Minister of Transport commented on the brief.

The members questioned the witness.

Dr. Borts presented a summary of his brief and the Minister commented thereon.

The witness was examined.

On motion of Mr. Rock, seconded by Mr. Southam,

*Resolved,—*That Dr. Williams' brief and Dr. Borts' brief including the Table of Maximum Rates be printed as an appendix to this day's Minutes of Proceedings and Evidence (*See Appendices A-42 and A-43*).

At 12.45 o'clock p.m., the meeting was adjourned until 3.30 o'clock p.m., this date.

## AFTERNOON SITTING

(73)

The Standing Committee on Transport and Communications met this day at 3.30 o'clock p.m. *In Camera*, the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout, and Messrs. Andras, Byrne, Cantelon, Deachman, Fawcett, Groos, Jamieson, Howe (*Wellington-Huron*), Legault, Lessard, Macaluso, McWilliam, O'Keefe, Pascoe, Reid, Rock (17).

*In attendance:* Honourable J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister; Mr. Jacques Fortier, Director of Legal Services and Counsel; and Dr. Donald Armstrong, Economic Advisor to the Committee.

The Committee continued and concluded its clause by clause examination of Bill C-231.

New clause 16 carried as amended

clause 53 carried as amended

Title carried.

The clauses, the Schedule and the Bill as amended carried.

The Chairman was ordered to report the Bill as amended.

The Chairman informed the Members that he had asked Dr. Armstrong, the Committee economist, to prepare a critique of the briefs presented this day.

The Chairman thanked the Committee Members for their co-operation and expressed their appreciation to the Minister of Transport for his attendance throughout the hearings relating to Bill C-231.

The Minister commended the Members for their efforts and interest in Bill C-231.

At 3.50 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,

*Clerk of the Committee.*



## EVIDENCE

(Recorded by Electronic Apparatus)

THURSDAY, November 24, 1966.

● (9.40 a.m.)

The CHAIRMAN: Gentlemen, I see a quorum.

First of all, gentlemen, we have before us the submission of Dr. Ernest W. Williams, Jr. and Dr. George H. Borts on behalf of the provinces of Manitoba, Alberta, and the Maritime Transport Commission representing the provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland. The province of Saskatchewan, as Mr. Frawley has stated, is not included in these representations. I was asked by counsel for the province of Saskatchewan to bring that to the attention of the members.

An hon. MEMBER: Did he give any reason for that?

The CHAIRMAN: No; it is just that Mr. Frawley stated this to the members, and I was telephoned and asked to say that they were not included. That was known to the Committee, and I have just stated that Mr. Frawley had made that known to the Committee.

I would first like to apologize to our two witnesses for bringing them here on their Thanksgiving day. At the time of our meeting the date our timetable was so tight that we could not make any other appointment. Please accept our apologies for that.

Dr. Ernest W. Williams, Jr., will be presenting the first brief, and by way of introduction I will give his qualifications: Professor of Transportation, Graduate School of Business, Columbia University, New York, where he has been teaching transportation since 1947. He holds the degrees of B.S., M.S. and Ph.D. from Columbia University. His United States government employment has been principally as follows: 1940 to 1942, United States National Resources Planning Board, as general editor of the study of Transportation and National Policy; 1942 to 1944, Program Bureau, United States War Production Board in the matter of materials requirements claimed by the Office of Defence Transportation; 1945, Chief, Transportation Division, United States Strategic Bombing Survey; 1945 to 1947, fiscal analyst, United States Bureau of the Budget, specializing in transportation matters; 1954 to 1955, member of the task force, Cabinet Committee, on Transportation Policy and Organization; 1959 to 1960, Chief, transportation policy survey, United States Department of Commerce.

He has testified before the Interstate Commerce Commission in the following proceedings: the Western Pacific Control case, Pennsylvania-New York Central merger case and the Rock Island merger case. He has testified before the Board of Transport Commissioners for Canada in the Rate Base—Rate of Return proceedings and in the Freight Rate Equalization proceedings. He also testified before the Royal Commission on Transportation which was established in 1959.

The qualifications of Dr. George H. Borts are: Professor of Economics, and Chairman, Department of Economics, Brown University, Providence, Rhode Island; he has been teaching at Brown University since 1950 and has been Chairman since 1954. Research associate, Cowles Commission for Research in Economics, University of Chicago from 1949 to 1950; Research associate, National Bureau of Economic Research, New York, from 1954 to 1955; and Ford Foundation Research Professorship, London School of Economics from 1960 to 1961. Dr. Borts' academic degrees are as follows: an A.B. from Columbia University, and an A.M. and Ph.D. from the University of Chicago. He wrote a Ph.D. thesis on "Cost and Production Functions in the Railway Industry".

He served as a consultant for the provinces of Manitoba and Alberta in the investigation of rail costs, which was part of the MacPherson Royal Commission investigation. He testified before the MacPherson Royal Commission in 1960.

He served as a consultant on transportation cost for the Office of Transportation Research, United States Department of Commerce, in 1963 and 1964; and as a consultant for the New England Telephone Company in 1964, 1965 and 1966.

He was a witness in the Interstate Commerce Commission, docket 34013 on transportation cost finding. He is the author of journal articles and monographs in the fields of transportation, railway costs, regional economics and regional economic development, and international economics. He is also co-author of a book on regional economic development in the United States.

We will start, Mrs. Rideout and gentlemen, with the submission of Dr. Ernest W. Williams.

The briefs have been in your hands since yesterday morning and I have asked the witnesses to give us the highlights of the important sections that we are dealing with, as we have had all the other witnesses do.

ERNEST W. WILLIAMS, JR. (*Professor of Transportation, Graduate School of Business, Columbia University, New York City, N.Y.*): Thank you, gentlemen. This presentation is already very brief, but I will attempt to economize in the matter of time in going through it.

The first page indicates that essentially the subject bill eliminates the conditional provisions of the Railway Act with respect to the prohibition of unjust and unreasonable rates, and, likewise, the prohibition of undue preference and prejudice and unjust discrimination. It also eliminates any control over the rate level as a whole, because it deals not at all with the level of earnings permitted.

Secondly, in substitution for that—so far as there is any substitution—we have principally the provisions of clause 317 which may have some possible effect in the area of discrimination, and, too, the provisions of clause 336, the maximum rate formula. As I have suggested, this provision seems to me a very inadequate type of protection for shippers lacking competitive alternatives.

I point out that the earlier standards of justness and reasonableness presently in the Railway Act were designed to deal with the conditions that surround particular movements of traffic. That is to say, they would take into account the kind of traffic as well as the points between which it moved and the

circumstances, including the average weight of carloads consignments, moving under the rate. It is, in essence, a specific concept, whereas the rule of clause 336 is a general rule.

I have further tried to point out at page 2 that it appeared that perhaps the rationale of the royal commission in setting the 30,000 pound rule for the determination of the maximum rate derived from the notion that, where truck competition was available, this would enable an approximation of the resource that might be anticipated from that competition. In fact, however, truck competition, even where excellent highways are available and where size and weight limitations permit truck loads well above 30,000 pounds, which is the standard in the section, is not an effective alternative to the rail movement of low-grade and heavy-loading commodities except on very short hauls. Even for high-value carload traffic it is not an effective alternative for very long loads. On the other hand, where water competition is available, or where pipe line transportation may exist, or be feasible, there may be some competition in these heavy-loading commodities.

The force of what I was attempting to say, however, at page 2 is that truck competition is not, standing alone, an effective competitive alternative for the great bulk of shippers confronting long distances and relatively low-grade commodities.

Under the terms of the proposed bill, accordingly, the shippers would be left in most instances to rely solely upon their bargaining power *vis-à-vis* the railways. The bargaining power of shippers and receivers of freight in general derives from the volume and the importance of the traffic they control and from their ability to divert to other carriers; or to transport for themselves. Small shippers lack the first, that is, they seldom generate volumes of traffic of large interest to the carriers. They may, as well, lack an alternative in the way of other forms of transport, or the ability to transport privately.

Large shippers, on the other hand, with territorially diversified interests, may bring to bear their power to divert traffic in competitive areas in negotiating rates for the non-competitive portions of their business. They stand, therefore, in a different relationship to the carrier than do the small shippers.

From an economic point of view, I have suggested that it would be undesirable, in the areas where there is effective water competition, to prevent railroads from meeting that competition when they can do so at compensatory rates; but I have asserted that it does not follow, as an incident to this process—that is, the meeting of competition—that areas less well-furnished, or entirely wanting in low-cost transport competitive for the large traffic flows, should be denied, over the railroad system that is in place, rates which are at a level reasonably related to the actual costs of the rail services to which they apply. If they are denied such rates, then their development will be impeded artificially by imposing higher charges upon their business than the costs of transport require.

It is not to be supposed that railroads will consciously adopt a policy designed to impede economic growth upon their lines. But competition is a thing which they face to a considerable and increasing degree and it is a thing which compels them to take action; whereas in the instance of a lack of competition, or a mere potential of development, it is not likely that an equivalent attention will be given to rate adjustments designed to stimulate or promote the development of such areas and business so circumstanced.



Despite the fact that there are important limitations upon the concept of unjust discrimination as embodied in present law and despite the fact that few complaints alleging unjust discrimination have been brought by shippers in recent decades either in Canada or in the United States, the statutory prohibitions have not been without effect. The principles underlying the concept embraced in the statutes were early clarified and carriers seek, as a general rule, to avoid putting into effect rates which may subsequently be judged to be unlawful. Moreover, limitation upon the degree to which discrimination is lawful is an important aid to the carriers in meeting the differential pressures of large shippers.

I make note of the fact that in our own country, that is, in the United States, railroads themselves advocated a strict rule of discrimination because of that fact—that is, their inability to resist large shipper pressures.

Clause 317, as it stands in the bill, is no substitute, I believe, for the present provisions of law. The principal reason for that belief is that it is addressed entirely to the question of the public interest, and does not, therefore, deal with the issue of the effect of a possibly discriminatory rate adjustment on the business of an individual shipper. Secondly, it puts the shipper, if he desires to protest such a situation which he believes to be unjust, in the posture of having to make a case for the public interest which is something that he is not well equipped, or perhaps at all equipped, to do. It seems to be clear that governmental bodies—provincial governments or other public bodies—may make such an allegation and, perchance, effectively, but the private shipper or receiver of freight, bearing the freight charges, is left here without recourse under the terms of clause 317.

It may be of interest, incidentally, on the rule of discrimination, but when, in 1955, efforts were made in the United States to apply a maximum-minimum basis of rate control—not exactly along the lines proposed here, but possibly similar in principle—it was argued that the rule of discrimination would require strengthening since it would be called upon to play a larger role in the protection of shippers than in the past. In the event, no such strengthening was actually proposed, but the law was to be left unchanged.

The question of the maximum-rate formula provided in Section 336 as well as the standards for costing provided in Section 387 will be discussed by Prof. Borts. I have already expressed my belief that the concept of a formula based upon a 30,000 pound carload advanced by the Royal Commission is at variance with that Commission's apparent objective to afford a measure of protection against the undue imposition of overhead burdens upon shippers where they lack an effective economic alternative to rail transport. It appears to me, also, as undesirable to incorporate in a statute a fixed percentage to be applied over variable costs. The relationship between variable and total cost in a railroad system is likely to change over time and it ought not to be necessary to amend a statute in order to recognize such a change. The origin of the 150 percent is not adequately explained in the report of the Royal Commission, but the mark-up over variable cost required by the railways ought to be related to their revenue requirements which will change over time. Bill C-231 is silent on this point.

Finally there is the issue of the conditions under which a shipper may be entitled to invoke the application of the maximum-rate formula. The construc-

tion that may be placed on Section 336 (1) is certainly unclear. As I have pointed out, the mere presence of transport service by truck does not connote the availability of an economically useful alternative to rail transport in respect of low-grade commodities or, even, in respect of any carload traffic moving over great distances. Section 336 (1) does not make it clear that shippers facing such conditions are entitled to seek the fixing of a maximum rate. Much discussion of possible alternatives to the language presently contained in the bill has not produced anything that is generally acceptable. It may be preferable, in order to avoid precluding an opportunity for shippers to be heard, to return to the self-declaration proposed by the Royal Commission.

Shippers have traditionally been entitled to just and reasonable rates from common carriers without regard to the presence or absence of competition. Where effective and controlling competition caused a reduction of rail rates below the level that might be adjudged to correspond with the maximum of reasonableness, they had no occasion for complaint on this ground, so long as the proposition remained in force that rates not so affected by competition must yet be governed by a rule of justness and reasonableness.

On the other hand, the shipper here is required, in return for obtaining a fixing of a maximum rate, to make his traffic captive to the railroad under the provisions of the bill. If the right to a determination is at the shipper's option, the acceptance of captive status becomes more reasonable than under other circumstances.

The full force, I think, of that proposition, that the shipper no longer would be entitled to a finding of a just and reasonable rate as a matter of right, is disclosed in the contractual provisions which are set out in respect of his captive status, in which, no matter how high the rate may have been against which he complained, he nevertheless is compelled to accept a status of captivity in order to get a finding of a maximum rate under the formula.

Thank you very much.

The CHAIRMAN: Thank you, Dr. Williams. I do wish to bring to your attention that clause 317 has just been done away with and that we have a new clause 16. Perhaps while Mr. Pickersgill comments you may have an opportunity to look at this before the questioning begins.

Mr. PICKERSGILL: First, Mr. Chairman, perhaps I could just say a word about the proposal in the new clause 16, which I submitted merely as a proposal yesterday and which I intend to ask the Committee later on today to accept. I think it is quite reasonable that the suggestion has been made that questions should be put to these witnesses about the new clause 16, as they were not aware of it when they prepared their papers. I would be very glad to hear any comments they have to make about it.

There are only two points that I would like to raise and they are just for clarification, in respect of Dr. Williams' brief.

I am puzzled by one thing, and perhaps it is just my incomplete comprehension that puzzles me. He has suggested at one point that instead of the 150 per cent at the bottom of page 6, the origin of which he says is not adequately explained in the report of the Royal Commission, we should seek to substitute a mark-up above variable costs, related not to constant costs at all but related to earnings.

Now, I raised this question with Mr. Frawley on Tuesday. I did not ask Mr. Frawley any questions about it; I simply expressed my own concern about how in fact, in the matter of mechanics, it would be possible to do this. I can understand the concept of an allowable level, or a permissible level, or a reasonable level, of earnings in relation to a totally regulated utility such as a hydro, or telephones, or a railway if all of its rates are regulated, but I wonder if Dr. Williams could tell us, in this concept of getting a mark-up, whether he would propose to segregate the earnings that are attributable to the captive traffic that is subject to the regulation from the earnings in the competitive area. I would find it very difficult in our form of society, with the concepts we have with regard to other forms of business, to say that a business should be asked to compete and, at the same time, to say that we are going to put a ceiling on the profits—even if that is done indirectly—of that competition, when it is bargaining with people, whose profits are not controlled? It seems to me that this would create for me a very difficult problem of conscience. It does not create a problem of conscience for me, however, if it is related solely to the earnings on the captive traffic; but I do not know exactly how you would measure that, and I just wondered if that point could be cleared up?

Mr. WILLIAMS: I think perhaps it can be cleared up, at least in part. I have not attempted to lay out a precise procedure by which it might be done, but presuming that one did determine a level of earnings, either along the requirements formula, which the Board of Transport Commissioners has used in the past, or some other reasonable formula, one would then have a figure indicating a total revenue entitlement of the railways, against which might be set this figure a total variable cost on all traffic. This would then disclose what mark-up, on average, was required between the variable costs of the entire business and the revenue requirements of the carriers, and would at least give a basis against which to judge a mark-up for non-competitive traffic. It is obvious, of course, that if railroads are to meet competition and, in doing so, are required to accept substantially less than average mark-ups, then the added mark-ups have got to come from somewhere. On the other hand, whether the 150 per cent has any relevance to such an average required mark-up, I cannot determine from the royal commission's report.

On the other part of your point, I think the reason for arguing that some form of revenue control ought still to be in the picture derives from the fact that, so far as I can make out, railroads are still not like other business. They have significant areas of monopoly and at the same time they are substantially competitive in other areas, and to the extent that they remain with any significant monopolistic powers in any significant areas of traffic it seems to me quite proper in principle that some regulation of the requirements, in a revenue sense, ought to be made in order to prevent an undue exercise of that monopoly power.

What we have before us, I think, is an industry which has had a change in the degree to which it has substantial control over particular transportation markets, not one which has become completely, and everywhere, competitive.

● (10.10 a.m.)

Mr. PICKERSGILL: Would you, then, apply the same principle to all other carriers, to water carriers, to trucking, to pipe lines, to air freight? It seems to me that unless you did you are really saying that the railways must compete but they must not get the fruits of competition.



Mr. WILLIAMS: I think that if it were to be shown that there were, in respect of other forms of transportation, significant areas of monopoly then it would be logical to conclude that they ought to be subjected to like regulatory standards.

Generally speaking, however, the railroads are given up as alternatives to other forms of transport so that if they exist parallelly we hardly expect to find monopoly in other forms. But there may well be an exception in Canada, as there would be in some parts of Alaska, certainly, in respect of air transportation, where such a monopoly does exist. I think, in principle, the same thing might be applied if the industry were of like character. Air transportation, though, is basically different in its economic structure from railroad transportation, and very likely permits more competitive development within the industry than does the railroad.

Mr. PICKERSGILL: Well, I think we could have an interesting debate for a long time on this subject, but I think I have your answer, and that is—and I want to be sure I understand it—that you take the total earnings of the railway and you decide by some standard—I do not know what it is—whether they are high enough or not high enough and then you say that, according to that standard, which would be also just as arbitrary, I would think, as the 150 per cent, that in respect of the captive traffic the rate should be such as to enable them to get that rate of return on the captive traffic and no more. Is that a fair summary?

Mr. WILLIAMS: If I may make a comment, I do not think there is anything arbitrary about it if one fixes a revenue-requirements formula. It is done after hearing returns in other kinds of industry, and it is done after determination of what seems to be necessary to sustain the capital devoted to the railway service and usually to encourage such necessary investment as may be down the road. I think this is entirely different from picking a figure essentially out of the air, which, as far as I can see, is what we have in the royal commission report.

Mr. PICKERSGILL: Well, it is the old medieval concept of a fair price as opposed to a market—

Mr. WILLIAMS: Yes; or the principle that is applied in public utility regulations.

Mr. PICKERSGILL: Where they have a total monopoly.

The other question is with respect to a determination of captive shippers.

In your brief you refer to going back to the principle of self-declaration. Of course, the principle of self-declaration is not departed from in this bill, but there is a different criterion which determines whether the self-declaration will be accepted. The early concept was that anybody could make himself a captive shipper whether the external environment depended upon the railway or not. The new concept is that there must be a reasonable dependence on the railway. In other words, where there is competition that the commission would determine to meet the conditions set out in this definition his application would be refused.

As between those two concepts, of course, there is a great measure of division, and I do not want to enter into discussion about that. However, it does not seem to me that the requirement in the bill, that, under the new definition of a captive shipper, he must give all of his traffic to railways, would be any hardship because he has no other way of shipping it anyway.

Mr. WILLIAMS: Well, this latter may well be true. If he is indeed captive I think it follows that he should have no objection and probably would have no objection.

On the other hand, I wanted to make it perfectly clear that there is a vast shift in principle from the position which shippers have been in hitherto. They have hitherto been entitled to a just and reasonable rate as a matter or right without having to prove anything with respect to competition, or other external circumstances, but only the conditions surrounding the movement of the traffic in question by railroads. So that there is a sharp difference—from a right to a situation where they must assume a contractual relationship with the carrier in order to get the rate on the basis of the formula.

On the other aspect of self-determination, I think the problem all along has simply been one of language and of fears about the interpretation that might be placed upon that. In this area I do not find any language that is ironclad.

Mr. PICKERSGILL: Well, I do not think there is.

The CHAIRMAN: I wonder if we could possibly have a little more silence? The least little noise reverberates around this room.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I would like to ask a couple of questions to elicit information about the situation in the United States, and these require only brief answers. Granting that there is a difference, of course, between the situation, generally, there and here, has there been the institution in the United States, of any regulation formula apropos this level of earnings, and has there been some success with it?

Mr. WILLIAMS: We made an effort along those lines in the Transportation Act of 1920, which attempted to apply to the railways the fair rate of return on fair value of the property used and useful in the transportation service. It proved to be a most difficult and disappointing experience. It came a cropper in the first instance on the question of how to value the properties of the railways, on which the government spent millions of dollars, and the carriers far more millions than the government, without any final fixed sum valuation for any single railroad ever having had the approval of the Supreme Court of the United States.

Secondly, while we were struggling over valuation, unfortunately, economic events caught up with the situation. We moved into the depression of the twenties and into the growth of competitive forms of transportation, after which the question became essentially academic; because the rate-of-return-on-fair-value formula applied to the railroads would have produced an allowable net income which has been attained in only one or two years, principally during the second world war; so that ordinarily our railroads when seeking increases in their rate level, which they have not done in recent times, but were doing at about the same period of time as the railways in Canada were.

The issue was really not raised since the maximum of income which they could have received from the proposed increases would not have come near that particular formula. But it proved a highly impracticable formula to apply in a situation such as we experienced about the middle 1920's.

Mr. BELL (*Saint John-Albert*): You also mentioned that a measure that had the same principle as the maximum rate formula was introduced and then you used this to show what they considered to be greater increases in the unjust

discrimination section. Was this formula, such as it was, invoked, and is it now in existence, and what has been its success?

Mr. WILLIAMS: No; that move that was undertaken in 1955, and subsequently, never got by the congress; so that we have not altered, in any significant way, our control over rates, except to accord the railroads some greater freedom in making competitive reductions in rates. However, that proposal did not contain a formula of the kind in this bill. It simply proposed that we would relieve the Interstate Commerce Commission of its power to fix an exact rate, and leave it only with the power to fix a minimum rate and a maximum rate, so that the carrier would have discretion between those limits to fix the rate where he saw fit.

Mr. BELL (*Saint John-Albert*): In other words, as you say in your brief, we are breaking new ground, and it is an interesting experiment?

Mr. WILLIAMS: You are breaking new ground on this continent, although some things have been done in Great Britain and on the European continent that go far beyond perhaps, indeed, even farther than what is proposed in this bill in, however, fundamentally different circumstances because they are countries of short distances. They are countries in which discrimination in rates has never been nearly as strong an issue as it has been in the United States or in Canada, and in which the problems of the long-haul shipper, as we know him on this continent, are non-existent.

Mr. BELL (*Saint John-Albert*): Would you care to comment on whether the maximum-rate formula and level of earnings matter is an advantage or not to Canada where we have just the two railways, and their particular situation? Would this make it easier to solve these particular problems, do you think, compared perhaps with the United States where there is a multiplicity of railways?

Mr. WILLIAMS: Well, the situation in the United States is certainly very different because we have varieties of competition within the railroad orbit that you do not have in Canada, and could not have, with two railroads principally operating and serving transcontinentally and very largely the same territories. We have a great deal of competition between railroads, not necessarily in parallel traffic, but competition in which one railroad serving shippers in one area of the country seems to put them into competition with another railroad serving shippers elsewhere; and that has been a very forceful type of competition, which was part of the reason that we thought that perhaps we could dispense with exact rate control. On the other hand, we have never had any confidence that we could dispense with control of discrimination, since discrimination is the kind of thing that is generated by differences in the force of competition, or by the absence of competition in one circumstance and its presence in others, and we still have a variety of circumstances of that kind.

I think it certainly is correct to say that whatever may be done in the way of a maximum rate formula would be easier of application in Canada than it would be in the United States because clearly you do not have the same diversity of conditions in the railroad industry itself.

Mr. BELL (*Saint John-Albert*): With respect to the captive shipper definition which you have mentioned in your brief, and from your experience in the United



States, would you say that truck transportation will increase in Canada in such a way and in such categories that it might ease the problems of this section which you envisage, or will the growth of truck transportation really not be in such a way that it would ease the burdens?

MR. WILLIAMS: Well, I think it might afford some modest help, but the difficulty, of course, is that truck transportation does not appear likely to be competitive for bulk and low-grade commodity movements over any significant distances. We do encounter truck competition in the United States and I presume it might easily be generated, if it does not already exist, in Canada, for instance, on coal on hauls up to perhaps 100 miles; but beyond that the truck ceases to be competitive. It simply is not as cheap a form of transportation as the railroad, and it does not enter into that field. Likewise in such movements as iron ore we hardly employ truck at all, and would not expect to. The same would apply to most other commodities. We find truck competition more effective in commodities like lumber, which is of somewhat higher value than certain of the others—that is, it extends to a somewhat greater distance; but by and large it is not, and cannot be, effective on the basis of its own economics for distances beyond a few hundred miles until you get into what might be called “balloon” traffic and the less than truckload varieties. On less than truckloads we have transcontinental traffic, but this is not very significant in the total picture.

MR. BELL (*Saint John-Albert*): Thank you very much.

I would like later to ask someone appearing for the provinces what they think of the new clause 16, about the *prima facie* case and the proof of public interest.

THE CHAIRMAN: I do not know if this has been brought to Dr. Williams' attention. Have you had time to look at that?

MR. WILLIAMS: No. If I may, I would prefer to comment on that after Mr. Borts has made his presentation.

MR. DEACHMAN: Mr. Chairman, I would like to draw Dr. Armstrong's attention to page 6 of the brief and to the second paragraph to which Mr. Pickersgill has already referred, which is pretty well at the heart of this presentation, and that is the 30,000 pound formula. At the bottom of that page the point to which the minister has already alluded, that 150 per cent, is not adequately explained in the report of the royal commission, but the mark-up over variable cost required by the railways ought to be related to the revenue requirements which will change over time. I wonder if Dr. Armstrong could give us his comments on the brief generally and in particular on this section.

MR. ARMSTRONG: Well, my comments on the brief generally are simply that the witness and the MacPherson Royal Commission staff have somewhat different views about the pervasiveness of competition. I think this is a matter of degree more than anything else. On page 1 of Mr. Edwards' brief it says: On balance it would appear that, in a laudable effort to confer upon the railways greater freedom. . .” I think, Dr. Williams, every transportation man recognizes that the average degree of monopoly enjoyed by the railways has fallen, and fallen very significantly. I do not think there is any question about that. It has fallen not just because of the reasons given here, which refer primarily to competing modes of transportation, which are probably the biggest factor, but

the economic power of the railway has been reduced by many other factors as well. Take the growth of expertise on traffic matters outside the railroad as an example. I think if you had called a convention of traffic men a hundred years ago you would not have gotten anybody but railway people. Now, as you can see from the witnesses that we have had there is a great deal of expertise on railway matters and on all transportation matters outside of the modes themselves. This expertise has reduced the power, because one of the sources of economic power is the ignorance of your competitors. Well, competitors are just not as ignorant now on transportation matters as they used to be. Expert help is available to them to help them in their bargaining with the railways.

There have been changes in the relative size of shipper and railway, and I am quite sure that a hundred years ago there was not any company in Canada that would come up to the top of the shoes of the CPR in relative size and economic power. That is not true any more. The economic power of the shipper in relation to the railway has grown.

Political pressure I think has grown over time to keep the railways in a gold fish bowl and, if you like, to keep them honest. There are a lot of careers built on being an "agent provocateur" as far as the railways are concerned. This has reduced the power of the railways to do what they wanted to do without reference to anybody else.

Looking at all these factors, including market competitive forces, which has probably been as important as anything else, the conclusion of the MacPherson Royal Commission staff was that the economic power of the railway has dropped steadily and quite dramatically over time.

When you look at the other side of the coin, what has happened to regulation? It is just the reverse. You would expect regulation to be relaxing over this period in whatever way you measure the degree of control over the railways, whether you measure it by the thickness of the Railway Act—which might be a pretty good way of measuring it—or the number of man days or man years spent by the chief executive officers of the various railways in Ottawa on this instead of running their businesses. There are all kinds of ways this could be measured corresponding to the D.O.T. We have just been going the other way because regulation builds on regulation and the superstructure of control breeds on itself. The tendency, once you get the machinery of arbitration and debate going, is to get more and more and more regulation. The point of the MacPherson Royal Commission report is: let us stop and take a look at this. We are right, the trend of monopoly power of the railways is down. Let us start reflecting that in legislation and not start following the natural tendency of—can I use the term "bureaucrat" without offending anyone?—bureaucrats to add more sections without taking anything out. It is very easy to add a regulatory section; it is very difficult to get anything removed.

I am not trying to express my own point of view, I am trying to express the point of view of the Royal Commission staff, which spent quite a few years looking at this problem in order to arrive at some kind of consensus of opinion. The difference in point of view is essentially one of degree. I think perhaps Professor Williams sees these areas of monopoly as being relatively more important than the commission staff. We looked for these areas of monopoly and we found, in fact, that when you tried to get a realistic maximum rate formula

which would work, every ceiling that you came out with was away above the rates that were in fact being charged. The maximum rates that are now being charged are class rates. These are the rates the railways had as their ceilings to start with, or commodity rates have been bargained down from that level. I think we find that it has not been rate regulation which has brought the rates down on these things at all, it has been the forces of competition. We therefore seem to be going along with a very elaborate regulatory machinery for very unimportant problems.

Let us look at any other industry. I was discussing this the other day with one of the members of the Committee who happens to have an agency for an automobile company, and I said, "Now are there not significant pockets of monopoly in your industry? When the company that you have to deal with is dealing with you, does that company not have a great deal of economic power in dictating terms to you as their licence holder for selling cars in that area?" This seemed to bring the matter home. Every industry has significant pockets of monopoly. I think we just have to assess this from time to time and say to ourselves, "Does this justify going in and regulating the automobile industry, or regulating the aluminum company and all these other companies?" In fact, the step away from tradition is very slight, but it is a step away; it is a break with tradition, there is no doubt about that. The MacPherson Royal Commission tried, though, to bring the regulation more in step with the real world. That is the specific philosophical difference.

As far as the 150 per cent is concerned, if I might deal with that point, the 150 per cent did not come out of thin air as has been indicated. It was not one of those kinds of numbers. In fact, the staff tried all kinds of equations and all kinds of numbers in an effort to put this together, and it seems that when you applied these tighter ceilings the benefits were accruing by and large to high volume commodities.

There are shippers who will benefit from the passage of this bill. There is no question about that. They will get their rates reduced as soon as this bill becomes law.

When you take a look at who those shippers are, they are not shippers that have appeared before you and they are not shippers that care all that much. They are shippers of caviar and pickled onions, and a lot of other products, who are paying very substantial rates. This is permitting, incidentally, steel to move from Hamilton to Edmonton more cheaply than it might otherwise do. There is cross-subsidization now; there will be cross-subsidization under the old act. We have so many things, as you have found in these hearings, that have to move at less than average rates, which is a point referred to by Mr. Williams. Presumably, we do not seem to want grain to move at fully distributed costs. We want the eastern seaboard to stay in business, we want traffic to move out to the eastern seaboard at rates which compete with New York and these other ports, and we do not want them to pay the fully distributed costs.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, with all due respect, and I hope I am not misunderstood, but I think that Dr. Armstrong should only make brief comments at this stage because we have two witnesses who have come a long way—

Mr. ARMSTRONG: I am sorry.



Mr. BELL (*Saint John-Albert*): —and then afterwards, as we had planned, he should be given a full opportunity to—

The CHAIRMAN: Well, Mr. Bell, Dr. Armstrong is answering a question asked by Mr. Deachman. He is completely within his rights, and I would ask you to withdraw.

Mr. BELL (*Saint John-Albert*): I suggest to you, Mr. Chairman, that it is not the very best idea for our witnesses to have their testimony broken up to this degree.

The CHAIRMAN: We have been breaking up witnesses' testimony all the way along, Mr. Bell.

Mr. BELL (*Saint John-Albert*): Not with another witness in this way.

The CHAIRMAN: I brought this matter to Mr. Olson's attention earlier, I believe, that we should resume in camera. However, Dr. Armstrong, could you complete your statement, please, and then we will proceed with Mr. Bell.

Mr. ARMSTRONG: I have every sympathy for Mr. Bell. Like Professor Williams, I am also a professor, and when we start we keep talking until a bell rings.

I think I have said enough. The 150 per cent in fact controls the amount of cross-subsidization, if possible, and if you bring that ceiling down you are not going to make it any easier for landlocked areas, you are going to bring traffic out of trucks and high volume commodities, and think you are going to put more pressure rather than less on things like steel moving to Edmonton. So that is what the 150 per cent was, is was a very pragmatic exercise which tested many ceilings and tried to assess what their effect would be on different parts of Canada.

The CHAIRMAN: Well, Mr. Deachman, the answer took up your time. Mr. Cantelon.

Mr. CANTELON: I really do not think there would be anything gained by my asking my question because Mr. Bell, I think, got in effect a very complete answer to it from Professor Williams, so I do not believe there is any need to continue.

The CHAIRMAN: Under those circumstances we will move on to the brief of Mr. Olson?

Mr. OLSON: I would like to ask Dr. Williams a couple of questions, but I cannot resist commenting that if the size of the bill is to be the criterion of how much regulation there is in the field of railways, and if we look at section 336 and find five pages cluttered up with something that admittedly does not do anything for anybody, I think it is a very poor criterion.

The CHAIRMAN: Are you asking a question, Mr. Olson? You keep making your preliminary statement and I wish you would just ask your question, please.

Mr. OLSON: Dr. Williams, in your brief you have referred to some extent to the ramifications or the implications of area development, if this greater freedom is granted to the railways, without any discrimination provisions and particularly the movement of low grade heavy loading commodities. I would like to ask you if, in your opinion, this bill will transfer to the railways a far greater

measure of power and control of regional development where the movement of these low grade heavy commodities make up a very major part of that regional development?

Mr. WILLIAMS: I think on that it is at least clear that under the bill, if passed, the railways will be without effective public control in that area. What kind of policies they may see fit to adopt I certainly could not speculate, but I think they would be in a position where they might well undertake to shift burdens in such a way that it would be troublesome to areas still heavily dependent upon the railways, and kinds of traffic heavily dependent upon the railways, that are out of reach of water competition or out of the present scope of pipe line operation. I do not see what there is in the proposed bill that would stand in the way of it, at any rate.

Mr. OLSON: I am thinking particularly, Dr. Williams, of the proposal to establish new industries, and we have had the argument advanced here a number of times that maybe some of the companies who would be supporting or establishing either a completely new business or an additional branch of their business, large companies that are very strong economically and whose bargaining power would be very great, how you would go about proving that the public interest would suffer if the railways did not give a rate for the purpose of this new industry?

Mr. WILLIAMS: Well, it would certainly be a difficult thing to offer proof that might be satisfactory to a court, but if you adopt, at any rate, an economic objective, the purpose of which is to ensure the most efficient use of the country's resources, then you can certainly make an argument that to the extent that there are advantages of location which are offset by freight rate differences or discriminations then the national economic potential is to some degree diminished. This, of course, necessarily assumes that the potential industry would, in the absence of the rate barrier, be capable of carrying forward and functioning effectively.

Mr. OLSON: We have one privately owned railway, namely, the CPR, that has very large invested interests in other areas besides railroading; mining, oil and gas, and so on. I take it, therefore, it is your opinion that if, with the passage of this bill, it would be possible for this company to set rates for new industrial development that would be beneficial to these other interests without the regional interests having any recourse under the law.

Mr. WILLIAMS: I think it would be possible. I do not see any bar to this in the bill as proposed. On the other hand, I dare say the Canadian Pacific would see the risks of pursuing a policy of that kind, at least in the long run, because clearly some kind of public criticism and dissension would be generated by such a policy.

Mr. OLSON: I appreciate that too, and I agree with you that the CPR would be cognizant of that but the fact is, as far as you are concerned, we do not have anything left in the law, after the passage of this bill, that would give the political power in the country any authority to take care of this kind of thing.

Mr. WILLIAMS: Well, I think you have some authority under section 317 but I do not believe it goes to the degree where an individual shipper, who would likely be the first person to realize these circumstances and in the most advanta-

geous position to bring complaint would be able to do that under section 317 because I do not think he is capable of making an argument on the subject of public interest.

The CHAIRMAN: Perhaps you should allow Dr. Williams a chance to look at clause 16(b), Mr. Olson.

Mr. OLSON: I was just coming to that. Have you had an opportunity to look at the new proposed clause 16?

Mr. WILLIAMS: I glanced at this and I do not see that it goes to the point I am trying to make at this juncture. It appears to be the case the clause 16 as it is drafted here would be moved into a different section of the bill and would not deal with the railroad alone any more but with carriers of any type. That seems to be the principal change in it. It still requires a *prima facie* case to be made out touching on prejudice to the public interest and this to my mind, in all likelihood, is something that only a public body could make with any effectiveness, so that individual business enterprises would hardly have a basis for proceeding under clause 16 or under section 317 that is in the bill.

Mr. PICKERSGILL: Could I ask Dr. Williams a question? Have you read clause 3(a) which is, of course, quite different from anything which was previously submitted?

Mr. WILLIAMS: Well, 3(a) is not dissimilar as I read it. Perhaps I am wrong about that. It is not dissimilar from the corresponding section of 317. I think I made some comment on that in my statement, which comment I did not read in the abbreviated form. The standards that are set out in in 3(a) seem to me to be quite suitable standards for application to a circumstance where an individual firm or industry complains of a discriminatory rate relationship. What this provides is not dissimilar from the older concept that he should be protected from a difference that is artificial, that is created by the railway and by the arrangement of rates and as in this case, by any carrier under clause 16, and should not be deprived such advantages as he may have in respect of location and the like by such an arrangement. What distresses me, however, is that while these standards in clause 16(3) (a) would seem to be appropriate to the case of dealing with the individual shipper's problem, I do not see how he ever gets before the tribunal since he has first to make a showing of prejudice to the public interest.

Mr. OLSON: Do you see anything in this proposed clause 16 that would allow a shipper to complain on the basis of having a rate offered to him by the railway that would make an exceptionally high contribution to overhead or the costs other than variable costs?

Mr. WILLIAMS: No, I certainly would not read it that way. I think under clause 16, as under 317, the shipper would be faced with the proposition that unless he can make a showing, which would be convincing to the commission, that the discrimination which he complains of which stands in the way of his business is a prejudice against the public interest. It is difficult to see how a shipper can speak effectively with respect to the public interest.

Mr. OLSON: I have just one other question, Dr. Williams. In the event that a shipper was able to offer a *prima facie* case and then he proceeded to have a



hearing, what recourse is there in the section? Perhaps I should refer you to section 4 as far as the directing order is concerned. It seems to me, as I read that, that all they can do is report it to the Governor in Council and the Governor in Council will then have the task of rate making or making directives in so far as a substitute rate is concerned. Is that the way you read it?

Mr. WILLIAMS: It appears that the commission could make an order under section 3(4) requiring the removal of the prejudice, but it would not be entitled to say how the prejudice would be removed.

Mr. OLSON: That is right, and it does not give them any authority to set a substitute rate, does it?

Mr. WILLIAMS: Oh, no, I do not think so.

Mr. PICKERSGILL: How do you interpret the words "or such other order as in the circumstances it may consider proper"?

Mr. OLSON: Well, that is a little bit unclear—I cannot think of another word—but it seems to me it would be far better if the language was such that they could, in fact, have the authority to order a substitute rate or a different rate.

Mr. PICKERSGILL: That is intended to provide precisely that power and also to provide for the power to make an order to remove any other form of prejudice. The prejudice might not be in a rate. It might be in some of the other conditions. This is intended to enable the board to have the greatest possible discretion to remove any aspect of the prejudice if it is proven.

Mr. OLSON: That helps me quite a bit, Mr. Chairman. I have one or two other questions I would like to ask Dr. Williams, but I will pass for now.

Mr. SCHREYER: Mr. Chairman, I have just one question to follow up the line of questioning by Mr. Olson. Dr. Williams, in your brief at page 5 you make the statement that "public interest" is not likely to be equated to a summation of "private" interests. Now, when one of the officers of the railways was testifying before us a few weeks ago this same point arose, as I recall, and the witness said that in his interpretation the public interest was prejudicially affected if the interests of one were prejudicially affected. Now, this seems to be all very well when you are speaking about civil liberties but when you are interpreting railway legislation is this kind of statement warranted or misleading?

Mr. WILLIAMS: I cannot say as to the precedence in Canada but certainly in the United States we have always assumed that there is likely to be a difference between the public interest and individual private interests, and that it was one of the main duties of the regulatory body to ensure representation of the public interest as distinct from the interests of the parties appearing before it, which might be shippers on the one hand and carriers on the other, or two contending groups of carriers, as the case may be. I think perhaps it is not impossible that it could be found that the interests of a shipper happened to coincide with the public interest, but certainly the view we take of it in the United States is that such a correspondence would be coincidental rather than a necessary conclusion.

Mr. SCHREYER: Thank you.

Mr. REID: Just on that very point on clause 16, could I ask the minister if that point is not taken care of by section 2, on the statement of who can appeal an investigation, if where it says "any person" it were "a person"?

Mr. PICKERSGILL: It is my opinion, of course, any shipper could go and say that he was under an unfair disadvantage under section 3, and under section 3 we stated specifically that anyone under an unfair disadvantage beyond that which may be deemed to be inherent in the location, and so on, the various conditions which Mr. Mauro suggested the other day, that that is a prejudice to the public interest. That is what this clause says. In my opinion, there is no question whatever that any shipper who could show a prima facie case that he was put under an unfair disadvantage would, by the definition of "public interest" that is in this clause, have access to the commission. Now, his case might be wholly wrong. The commission might decide it was not an unfair disadvantage, but he certainly is entitled to allege it and if it is an unfair disadvantage he wins. There is no doubt about that in my mind. That is why it is drafted this way.

Mr. REID: So another interpretation would be that you are defining the public interest and the private interest with the shipper?

Mr. PICKERSGILL: I think it is a coincidence. I think it is contrary to the public interest for the railways to impose an unfair disadvantage as described in section 3 (a). We say so. In conducting an investigation under this section the commission shall have regard to all considerations that appear to it to be relevant, including whether the tolls or conditions specified for the carriage of traffic under the rate so established are such as to create unfair disadvantage.

Mr. REID: That is all, Mr. Chairman.

Mr. PICKERSGILL: I have one question if I might be permitted. It is really an appendage to Mr. Olson's question which I would like to put to Dr. Williams. He has suggested that something is being taken away that has been of great protection to shippers in the substitution of a new clause for 317.

From the Canadian experience could he give us some recent instances? I notice he says there have been few complaints alleging unjust discrimination in recent decades either in Canada or in the United States, but does suggest there have been some and that they have been of some importance. I wonder if he could give us a few examples of cases where the present provision of unjust discrimination has really been of substantial benefit to shippers?

Mr. WILLIAMS: As to Canadian examples, I do not think I can. I am not sufficiently familiar with the cases before the Board of Transport Commissioners.

Mr. PICKERSGILL: Right.

Mr. OLSON: Mr. Chairman, I would like to ask Dr. Williams some questions about this word we have been troubled with all through these hearings, and this is establishing a "captive" shipper; physically captive, economically captive or however you like. Would it be more appropriate for me to ask these questions after Dr. Borts has made his statement?

The CHAIRMAN: Perhaps you could hold these questions until after the brief has been submitted. Dr. Williams will be here. We will move on to Dr. Bort's brief.

Dr. GEORGE H. BORTS (*Professor of Economics, Brown University, Providence, Rhode Island*): Thank you, Mr. Chairman. I shall endeavour to co-operate with the chairman's injunction to summarize the brief because you have it in front of you. However, there are certain sections I shall have to read in order to avoid misunderstanding or misquotation. My testimony will cover sections 336 and 387 of the bill. Section 336 deals with maximum rate regulation for captive shippers with the definition of captivity and with the rate formula to be applied to captive shippers. I think by now you are familiar with the fact that the concept of maximum rate regulation was suggested in the report of the MacPherson Royal Commission on Transportation and it was designed as a substitute for the traditional regulatory protection against monopolistic rail charges. You are also familiar with the fact that the report recommended that the Canadian railways be substantially freed from regulation and allowed to set rates on a large body of traffic which had become competitive.

The report argued that competition from truckers had changed the transportation environment in Canada and provided Canadian shippers with effective alternatives to railways as a means of transporting their goods. The Royal Commission was apparently convinced that there were profitable opportunities for carrying traffic which were closed to rail so long as the traditional protection to shippers were enforced and so long as rail rates must be approved by regulatory process, and interested parties could intercede through the traditional procedures of the Board. There is some indication the traditional procedures of the board were not fully effective in eliminating all of the discrimination which could be eliminated, and this is a matter of judicial interpretation. The same thing might be said in the United States.

The Royal Commission recognized, however, that there was a substantial category of traffic and of shippers who would be left stranded by the removal of the traditional regulatory protections against railway price discrimination. This category of shippers fell into what was euphemistically referred to in the report as the area of substantial monopoly. These were shippers who did not enjoy effective alternative modes of transportation and were subject to higher transport charges and higher mark-ups than they might have enjoyed had such alternatives been available. I might add however, that the report never did go into the question of who these shippers were. It never went into the question of what, in fact, the mark-ups were on variable cost of carriage of their commodities. Nevertheless, the report did recognize that such shippers had to be protected by some substitute for the traditional injunctions against discriminatory treatment. These shippers feared that rail rates would increase upon the termination of traditional regulatory protections against unjust and discriminatory rates. The Royal Commission recommended that a system of maximum rate regulation be introduced in order to protect this class of shippers from excessive rates which would force them to make an undue contribution to the overhead of the railway system. As I say, no attempt was made in the Report to identify the characteristics of the shippers who might become captive. No attempt was made to specify what burdens they were presently bearing. Nevertheless, there is an indication from other sources that they are a substantial body. For example, it has been suggested that the shippers who are identified under the Freight Rate Reductions Act, namely, the shippers of class rates and non-competitive commodity rate traffic, are those who have to be protected.



A second unfortunate aspect of the Royal Commission Report which has already been brought out was its failure to explain the mark-up over variable costs which such shippers were then bearing. We now know that the mark-up recommendation is 150 per cent over variable cost, and I respect what Professor Armstrong has told you about the experimentation with various formula, but nevertheless I maintain that we are still not told where such a figure comes from or why such a mark-up was selected or why it is twice as high as the average mark-up on all Canadian Pacific rail traffic.

Let me now turn to the specific provisions of the bill for dealing with captive shippers. The first provision is the definition of captivity and the second is the rate formula itself. You are aware of the provisions of the bill under which captivity is specified. A shipper may request the commission to determine the probable range within which the rate may fall. After being informed by the commission of the probable rate, he may apply for a determination of captivity and the commission may fix a rate which is determined by formula. I think that this is a vague criteria by which the commission may decide whether a shipper is worthy of captive treatment. You can see this in the opening words of the statement where it says:

...a shipper of goods for which in respect to those goods there is no alternative, effective and competitive service...

And so on. The problem is that it is very difficult to specify what is meant by the absence of alternative, effective and competitive service. From one point of view there is very little competitive service in Canada, where you see only two major railway systems and where these major railway systems also own truck lines. On the other hand, we do know that the rails have lost traffic to the trucks so we know there are shippers with alternatives. The difficulty is how to specify the absence of such alternatives. I would find it very difficult to specify what is meant by the absence of alternatives for the purpose of defining captivity. The traffic which is truly captive in the economic sense consists of heavy loading commodities which find the railroads more advantageous than truck because the present technology and costs of rail and truck operations. This represents such a broad category of traffic, however, that it is probably best not to tie up the time of the commission staff deciding who is and who is not economically captive. I would say the simplest way is to simply allow self-declaration of captivity on the basis of the rate formula which is offered to the shipper who might become captive.

Let me then turn my attention to the rate formula. It has two important aspects. One is the fact that the shipper is to be charged on the basis of the variable cost of a 300,000 pound shipment. This costing will be carried out no matter what the actual weight of the shipment happens to be. As I shall point out, this imposes fantastically high mark-ups over actual variable cost for shipments of larger size. It will hardly be surprising, then, to paraphrase what Professor Armstrong said, that cost formulae of this kind seem to give major protection to high rated traffic. He may wish to comment on that later.

There are other provisions of the bill giving a slight sliding scale, which I will not read. If there is a shipment of 50,000 pounds or more there is a slight deduction in the fixed rate to reflect the saving in variable cost of heavy loading.

But this slight reduction goes nowhere near changing the conclusion that the heavy loading traffic above 30,000 pounds bears higher and higher mark-ups under the rate formula.

For shipments of larger than 30,000 pounds, the peculiar provisions pile mark-up upon mark-up, because the economies of heavy loading traffic are not reflected in the artificial variable cost concept to be calculated. In an earlier submission to the Department of Transport made jointly by the provinces, an analysis of the rate formula revealed, on the basis of U.S. costs, that the mark-up over variable cost varied from 150 per cent on a 30,000 pound load up to a mark-up of 600 per cent for a shipment of 140,000 pounds. Now, since my testimony was written I have been able to make a computation of the mark-ups on the basis of more direct Canadian cost experience. I have a chart here which I would like to have distributed. I hope there will be enough copies to go around the committee. These costs were derived from the report of the MacPherson Royal Commission. What was done was to compute system average costs for the Canadian Railways and then to compute what the maximum rate would be and what the percentage mark-up over actual variable cost would be for various loads. Again I am using a 500 mile length of haul, and we find here that the percentage mark-up over actual variable cost, using these figures, varies from 150 per cent on 30,000 pounds up to 467 per cent on 130,000 pounds. So, the conclusions in my written testimony have to be modified slightly due to the fact that the actual Canadian cost experience, as we were able to measure it for 1958 from the grain cost studies, showed a slightly smaller drop in economies of heavy loading compared to the initial figures which had been derived from I.C.C. cost scales for the United States.

In either case the percentage mark-up of variable cost rose continually as carload weight rose because of the failure of the rate formula to take account of the economies of heavy loads. I might add that the rate formula in either case resulted in a relationship between rate per hundred pounds and weight of load, which declines far less rapidly than the actually observed relationship of Canadian freight experience between rate per ton and load per car. There is no question that the rate formula provides less and less protection to the potentially captive as the weight of the shipment increases, and least protection to those shippers who are the natural captives of rail service. If there is any category of shipper who will attempt to seek protection under the cost formula, his loads will be in the 30,000 to 50,000 pound range. I will say more on this later.

A second question which arises in my mind in reading the bill is the fact that the variable cost, as written in the bill, apparently includes the rate of return on capital used to provide transportation service. There certainly are definitions of variable cost that economists use that should include the rate of return necessary to attract capital into a competitive industry. However, there is a question in my mind as to why one computes a long run variable cost figure, including the cost of money, and then adds 150 per cent on top of that. I think the committee should first of all make it clear whether this is its desire, and I have already indicated what I think is wrong with that. I will spell out my own recommendations in a moment.

I should, however, like to turn to a rather important question, namely, the effect which the rate formula is likely to have on various classifications of traffic. It has been very difficult to answer this question precisely because the railways

have not co-operated in providing cost information relevant to the issue of the effects of the cost formula. For this reason we have had to rely on cost data which are suggestive but which are certainly not conclusive. The procedure I described a moment ago was to use the cost formulae for the Canadian Pacific Railway which are used by the royal commission staff in volume III of its report. We have derived cost factors related to output units and then used them to derive system average costs and then used them to construct a cost scale by mileage block and tonnage block for the Canadian Pacific Railway. We recognize there are obvious difficulties in using this for commodities which required special handling.

We then took the waybill analysis of carload traffic as published by the Board of Transport Commissioners in 1965 and selected commodities in the following way. For each mileage and tonnage block we selected shipments having the highest revenue per ton and the lowest revenue per ton. The commodities having the highest revenue per ton were collected in a group called "high rated traffic", and the commodities having the lowest revenue per ton were collected in a group called "low rated traffic". For each type of commodity we calculated the rate which would be set under the rate formula and compared the formula rate with the actual revenue per ton which the traffic was generating. In this way it was possible to suggest the effect of the rate formula with regard to different categories of traffic. If all shippers were free to declare themselves captive, it would be possible to say whether the rate formula tended to favour one class of shippers over another. The results of the calculations are shown in table I on page 11. I will not read the table, but merely summarize it.

On the basis of the calculations it is possible to draw the following conclusions. None of the traffic referred to as low rated traffic would find any inducements to seek captivity. Using the rate formula in the bill, the formula maximum are already higher than the actual rates presently being collected.

The story is somewhat different for high rated traffic. Here we discovered that there were categories which might very well have an inducement to seek captivity under the bill. These consist of high rated traffic in the tonnage categories from 15 tons up to 35 tons, and here it appeared as if the maximum rate under the bill would, on the average, be lower than the actual rates being charged by the railways. Here is an area where the shippers do have an opportunity to get some kind of rate reduction compared to what they are presently paying. Above 35 tons, or 70,000 pounds, the bias of the rate formula against heavy loads begins to operate, and there is no advantage in any tonnage category above 35 tons for a shipper to seek captivity. I might also add that there is no evidence that the formula rate has any distance discrimination built into it as such. In other words, it does not change the distance characteristics of the present rate schedules.

Concluding, then, the rate formula provides some relief to shipper of high rated commodities whose loads fall short of 35 tons. This raises the question of whether the formula is providing the protection it was designed to provide in terms of the original recommendations of the royal commission. The traffic which is truly captive in the economic sense consists of heavy loading commodities who find the railway more advantageous than truck alternatives because of the present technology and cost of rail operations. Because of the biases in the rate formula, shippers of such commodities can find no relief. Not only can they find



no rate reductions in the bill, but the railways will be free, if they choose, to raise the rates which such shippers presently bear. In the absence of realistic service alternatives, only the ability of the shippers to pass on rate increases to the ultimate consumer will determine whether prospective rate increases will result from the bill.

The class of shipper that is benefited by the bill might facetiously be referred to as the shipper of empty boxes. Because of his light load it is conceivable that he already has truck competition.

Let me, then, give you some recommendations on section 336 which I think are alternatives. There are three recommendations which are alternatives to each other, alternative courses of action which you might take. The cost formula and the notion of a captive shipper could be struck completely from the bill. It would then be necessary to rewrite into the bill traditional legal protections against unjust and discriminatory rates. As unsatisfactory as these might be, at least such shippers would be no worse off than they are today. A shipper would then go through the traditional regulatory procedures in order to protect himself against excessive mark-ups over cost and against rates which put him at a disadvantage against competing shippers. That is, he would do the best he could. In view of the desire of the royal commission to free the railways to cut rates for the purpose of attracting greater traffic, this alternative would push the railway system towards more uniform mark-ups over variable cost, although the mark-ups would not necessarily be equalized. That is, it could push the system towards more uniform mark-ups if the transport commission would apply these provisions against discriminatory rates. Nevertheless, all rates would have to be cut, from an economic point of view, this is an attractive solution, since economic efficiency implies that all buyers of a service are charged either its marginal or its variable cost, or its variable cost plus a uniform mark-up.

The second and most obvious advantage of a cost based rate structure, which is what this recommendation is moving you toward, is that all shippers bear a uniform per cent overhead and there is no price discrimination. This move toward a cost based rate structure would be desirable in my view, but it is not the intent of the bill.

A second possibility is to maintain the concept of self-declaration of captivity and introduce a better cost formula. Under these circumstances I would recommend a cost formula which specified a per cent mark-up over the variable cost of carrying the traffic at its actual weight. I would use the actual weight of the traffic, not the fictional 30,000 pounds shipment. The per cent mark-up would then relate the desired revenues of the railway to their actual variable cost. Whether the right mark-up is 50 or 150 per cent, I do not know. It would depend on a level of earnings which the commission would have to specify for the railway. As part of this second alternative, one might also rewrite the non-discriminatory rate provisions into the bill and treat these as additional protections for the captive shipper over and above the protection he would receive from the maximum rate. I would say that this would provide captive shippers with more protection than they are likely to receive under the present bill.

A third alternative, and one which is very appealing because of its simplicity, would be to do away with the rate formula and the notion of captivity entirely and simply place a ceiling on all mark-ups. That is to say, you could simply write into the statute the provision that the present rate structure

relationship between railway rates and variable costs on each commodity provides a maximum ceiling which the railways cannot exceed. This rule would free the railways to carry out all of the rate cutting which they claim they need in order to attract new traffic. At the same time the ceiling mark-up on variable cost would present a maximum burden on existing shippers which never could be exceeded. Over time, if competition tended to pervade the transportation sector, these ceilings would be left behind and the railways would cut the percentage mark-up over variable cost in an attempt to attract traffic. An additional benefit of the ceiling is that it frees the railways to cut rates where they please to attract traffic, and to pass on the benefits of technological change in cost savings where they please to attract traffic. The only thing we want to make sure of here is that the ceiling rate of mark-up over variable cost is never exceeded.

To summarize this third proposal, the protection which the shipper desires through captivity could be provided by specifying a ceiling. This protection will not lead to any rate cuts, but it would assure against rate increases resulting from an attempt to make captives bear undue burdens. This provision would not freeze the rate structure either, because increases in variable cost would be passed on to shippers after investigation of their validity. This investigation would have to be carried out by the commission. With a ceiling on mark-ups the railways would not have to apply to the board for rate increases in case of increases in variable cost. A shipper could, however, apply to have an announced rate increase suspended prior to an investigation of the railway's claim that its variable cost had increased.

The maintenance of ceiling mark-ups could also be combined with the provision of non-discriminatory privileges for certain classes of shippers. Here one might reinstate the notion of captivity for certain classes of shippers who wish non-discriminatory provisions applied to their mark-ups over variable cost. Captivity could then be regarded as a *quid pro quo* in the case of a shipper who wishes the same mark-up on variable cost as his competition.

I should like to make one general point in concluding the recommendations on section 336. The bill as it now reads conveys the distinct impression of an overwhelming concern with the revenue position of the railways. There should be an equal concern for the well being of users of transportation and for an efficient use of transportation resources. Railway rates, like excise taxes on specific commodities, place a gap between the price paid by the consumer and that received by the ultimate producer. For this reason railway rates may have a controlling effect on the regional and industrial distribution of economic activity. To the extent that railway rates do not reflect the long run marginal costs or variable costs, they are an attempt to recover from particular markets the unallocated burden of rail costs. This unallocated burden of rail costs is truly independent of particular services, and there is no economic justification for placing it on one class of shipper as opposed to another. In fact, rail rates are structured to place a disproportionate share of the burden on shippers with the fewest service alternatives. The method of recovering the burden is, therefore, a matter of tax policy and is inconsistent with the desire to have an efficient allocation of resources. The proposed legislation is designed to ensure that there is no loss of contribution to burden by captive shippers as a group. There is no logic to this position. Taxes on one group are being used to pay a burden which

should be borne either by all shippers or by the country as a whole. I believe it is a mistake to use the loss of contribution to burden as a criterion for rejecting proposals to protect the captive shipper. The proper criterion to be employed is to ask whether such proposals will improve the regional and industrial distribution of economic activity.

Let me now turn my attention from section 336 to a brief discussion of the provisions of section 387, which attempts to specify guidelines to be used by the commission in computing cost for the purposes of the act. I feel that the terms of this section are imprecise and inadequate to protect the interests of various shipper groups, consumer groups and other parties, and I should like to recommend certain changes.

Section 387A(1). Let me briefly say here that there is a certain inconsistency in the instructions to the commission on how to compute the cost of money and depreciation as it applies to the prior sections of the act. In my recommendation here it is simply that the section be clarified to explain the difference in treatment.

In section 387A(2) the commission is instructed to include in the computed costs of any particular undertaking or operation of the company those costs of the company which are in whole or in part reasonably attributable to the particular undertaking or operation. This section is confusing and possibly mischievous in its impact. The concept of variable cost as it is used in the bill is sufficiently well defined—though not defined in the bill—by economists so that it is not necessary to add modifying provisions which attempt to bring in “reasonably attributable” costs which do not, in fact, vary with the particular items of traffic. The danger of the section is that it opens up all the complications of adding burdens, overheads, system deficits, and so on, in particular traffic services if the commission has a mind to entertain such possibilities. It would be far better to protect the commission from temptation in this area and to delete section 387A(2) entirely and substitute a simple instruction that variable cost consist of the savings in total cost from a reduction in service output, and that the revenue or loss on any particular service should be determined by comparing revenue with long run variable costs.

Sections 387B and 387C are also worthy of comment. Section 387B gives the commission the authority to define the items and factors relevant for the computation of cost. It also sets up an appeals procedure to handle written submission to the commission with respect to amended regulations and to set up hearings with respect to proposals for changes.

My own feeling is that the section could be stronger in providing more protection to interested parties in the following way; it should be obliged to permit interested parties to interrogate commission staff, and, the other point is that the section is going to be weakened by the provisions of 387C, which I am now going to discuss.

Section 387C proposes to protect the confidential nature of cost data obtained from a railway company. The hearing procedure would be hampered by the inability of interested parties to obtain information from railways affecting questions of cost. It is not clear how a fair and impartial hearing can be held when a chief party to the hearings, namely the railways, can withhold cost information from interested parties outside the commission. This issue of con-



fidentiality becomes of immediate importance whenever an interested party before the commission has a complaint involving cost. Cost enters into considerations of abandonment of uneconomic branch lines, the determination of deficits in the grain traffic, compensatory rate levels passenger deficits, and soon. In each case, interested parties must be able to examine commission staff and examine statements and testimony presented by other interested parties.

Much has been made in the past of the need to protect the confidential nature of operating cost data of the railways.

I should say much has been made in Canada of this point. In the United States it is quite the contrary, cost data has been made available to the public through the reports which the railway companies are required to file. I do not want to go through the arguments which I have put in here about the confidential cost data. My own feeling is that there is no reason to protect the confidential cost data of the railways because of their monopolistic position which still remains because of the fact that railways are still going to be a regulated industry. My final point is that if you are going to protect the confidential nature of cost information you simply cannot have any reasonable kind of cost finding by a regulatory commission.

Let me then conclude with the recommendations which I would make to this section of the bill.

The commission should be instructed to carry out costing procedures necessary to satisfy the requirements of sections 314, 329, 334, and 336. In addition, the commission should be instructed to determine the profitability of any undertaking by comparing the revenues from that undertaking with the long-run variable costs.

Such information could be made freely available to all interested parties relating to commission hearings under those sections.

Interested parties will have the right to examine material prepared by commission staff and examine material presented by other interested parties.

Section 387C should be deleted.

Thank you very much.

The CHAIRMAN: Mr. Pickersgill.

Before we move on, I would ask for a motion to print both submissions and the table presented to us by Dr. Borts.

Mr. SOUTHAM: I suggest we have comment on the briefs given this morning. I think we should continue to carry right through with the pattern we have followed.

The CHAIRMAN: Yes, that is right.

Mr. ROCK: I move that both submissions presented today be printed as appendices to today's minutes.

Mr. SOUTHAM: I second the motion.

The CHAIRMAN: All those in favour?

Motion carried.

Mr. PICKERSGILL: I have very little competence to discuss any aspects of Dr. Borts' brief. Although I read it very carefully twice—it goes into a realm in

which I am only an amateur, only a pupil, and in which he is an expert—I am not going to attempt to deal with the expert part of the brief.

There are about three points to which I would like to refer. On page 4, he refers to the problem of tying up the commission with the determination of whether or not someone is truly captive in the sense that he has no alternative, effective and competitive service available. He then suggests that if anyone was allowed to declare himself a captive, it would be a preferable alternative to avoid this burden. I just asked myself whether the burden of computing the cost, in the case of anyone who wanted to declare himself a potential captive, would not be a far greater burden on the bureaucracy than the simple determination—I must say that from my experience I do not think it would, in fact, be a very difficult problem whether or not the person was truly dependent on the railways. It might be more difficult in the United States with the denser population and the greater variety of alternative modes, but in our thinly populated areas, almost any layman could do this determination; whereas the determination of the cost, if you have a large number of applicants for captivity and they do not have to be dependent on the railways to be captive and you have to determine the costs in order to get a maximum rate formula, I suggest would be a far more formidable task than the one which this bill gives. That is one of the reasons why we accepted this alternative concept.

I think I must take the standard objection which I have taken throughout, at this Committee, to the phraseology about the refusal of the railways to provide cost data, because the Prime Minister and I both made an offer to the premiers of the prairie provinces to give us a list of the kind of people they anticipated would be typical captives, so we could look at this problem and we have never had any reply to that offer. I am not making anything of that except that I would have thought that if this were the prodigious problem that it is sometimes represented as being, it would not be very difficult to find some typical examples. I do not want to make anything very much of that. It is a problem, of course, but we have not had any instances within the definition, not one.

I must say that not having done many of these computations myself I was rather surprised to discover that the effects of adopting 336 would be to reduce some rates from the present maximum rates. I may say that this result will, no doubt, be pleasing to some potential captive shippers, but it certainly was not my intention in introducing this bill, because we are paying the railways \$100 million from the treasury now and unless the reduction in rates will bring them extra traffic and extra profits, I am not very anxious to be responsible for putting additional burdens on the treasury, particularly after hearing a broadcast on the radio this morning—Mr. Thompson's rather dramatic figures about the burden of taxes on Canadian people already which I think all of us might have profited from hearing.

I say that because I come to the same point on page 14. Professor Borts says:

The bill as it now reads conveys the distinct impression of an overwhelming concern with the revenue position of the railways.

I do not mind, at all, if the bill conveys the distinct impression of serious concern with the revenue position of the government of Canada because when, in a country the size of Canada with the budgets of Canada, \$100 million is being

paid to the railways in subsidies, apart from the deficits of the CNR, I think it is a matter of serious and pressing concern and I am not ashamed to say that I want to do as much as possible, without doing any injustice to any region or any section of the country, to reduce that burden upon the treasury.

Now, this is the situation which, of course, is quite different from the American situation because the American government does not run any railways; it does not pay any deficits and does not have the kind of situation that we are faced with here.

Also, I think this really throws the whole of the next paragraph into an entirely different light, because it does seem to me that the next paragraph does suggest that the railways should be used and railway rates should be used to overcome geographical disadvantages. That is done—at least that is the way I interpret it—because most of these monopoly situations are geographical and, of course, we have done that as a matter of public policy. In the Maritime Freight Rates Act which we have had since 1927, the reduction is paid for out of the treasury. That burden is not thrown on the railways. I think if we want to give this kind of discrimination in favour of a region, it should be done as a matter of public policy and not done through the railways, and that is what the MacPheron Commission was trying to get away from and it is what we are trying to get away from, this indirect way of doing things which we think ought to be done directly so we know what we are doing and we know that it is being done to achieve the purpose for which it was intended.

Therefore, as I said, I find it hard to accept this particular sentence at the very end of the paragraph on page 15:

The proper criterion to be employed is to ask whether such proposals will improve the regional and industrial distribution of economic activity.

I do not think the purpose of railway rates as such is to do that; I think it is to be fair between regions but not to improve the position, to take away the disadvantages of geography. If we wanted to do that we should do it as a matter of public policy and we are doing it and have been doing it since 1927 in the maritime provinces.

Mr. BORTS: I think you may have misread my point there—

Mr. PICKERSGILL: I may very well have.

Mr. BORTS: In the context of the legislative and political problems in Canada. When I said "improve the regional distribution of economic activity, in my statement," it was consistent with what Professor Williams had earlier said that if you have a potential for economic development which is being slowed down or interfered with by the placing of burdens on rail charges which are not related or which are undue burdens, then you are interfering with the regional distribution of economic activity. I am in favour of a fairer regional distribution of economic activity which means making sure that there is no undue burden placed on different regions.

Mr. PICKERSGILL: I quite agree with that. I seem, therefore, to have misunderstood your point and with that expression of it I agree completely and that is precisely what we are trying to do by the additional clause we have put into the bill, the new clause 16. I agree completely with that position. I think that is all I have to say.



Mr. Rock: Mr. Borts, these variable costs including cost of money, are these actual factual figures?

Mr. BORTS: These are figures which were derived from the royal commission's report and the royal commission report contains cost estimates made by the staff of the commission on the operations of the Canadian Pacific Railway for the year 1968, and from these figures we derived system averages, which were then used to give you that column 1. I might say that this is only an estimate on our part and it is used for suggestive purposes, for the lack of any other data which we could get our hands on.

Mr. Rock: In column 1, you had variable costs including costs of money?

Mr. BORTS: Right.

Mr. Rock: The variable costs are actually the total costs of the running of that part of the railway, for instance, to establish this rate?

Mr. BORTS: Variable costs are defined as the costs which you would not incur if the service were not performed. In other words, the variation of total costs with services.

Mr. Rock: Yes, but it is the total cost.

Mr. BORTS: It is the variation of total costs.

Mr. Rock: Right. Now, the legislation here, if passed, will allow, on top of those costs, a 150 per cent?

Mr. BORTS: On a thirty thousand pound shipment.

Mr. Rock: Yes. And then you go on, that when the shipment is larger, the mark-up varies higher each time.

Mr. BORTS: That is right.

Mr. Rock: And the protective amount here is 150 when a person says that he is a captive shipper?

Mr. BORTS: These are the rates that would apply to anyone who is captive.

Mr. Rock: All the way through?

Mr. BORTS: All the way through. These are the mark-ups that would apply on actual variable cost to a captive.

Mr. Rock: Would you consider then this 150 per cent, and all the other percentages that are higher, an actual profit in this case?

Mr. BORTS: Yes, yes. That is the whole point at issue, whether the railways should be allowed to earn these profits from these shippers or not.

Mr. Rock: Now, within the variable costs, including costs of money, do you feel there is a profit factor also included?

Mr. BORTS: Yes.

Mr. Rock: Which part?

Mr. BORTS: Cost of money.

Mr. Rock: Cost of money. Can you explain that more thoroughly than you have in a sense?

Mr. BORTS: Well, what is euphemistically referred to as the cost of money is the rate of return which is allowed the railway on this service. What the commission staff did, was to allocate a certain portion—as a result of the cost work that they did—of the railway investments to variable costs, and then allocate a certain rate of return on that investment.

Mr. ROCK: Indirectly, does this mean a return on investment, let us say, to the shareholders?

Mr. BORTS: It may. Well it depends on the behaviour of the railway, how it distributes its earnings once it has them. But eventually this will flow through the shareholders, yes.

Mr. ROCK: And this is included in the cost of money?

Mr. BORTS: Yes.

Mr. ROCK: To your belief.

Mr. BORTS: Yes.

Mr. ROCK: I can only agree with you here because I have just attended a hearing before the Board of Transport Commissioners for Canada, and they had their experts in economics. This meeting was held just two weeks ago in Westmount, Montreal, and had to do with the commuter service in the lake shore area. In this case here, the variable costs included all the costs, as you mentioned, and within them was the cost of money. This expert to whom I referred stated that about 70 per cent of that cost of money is to pay an annuity to the shareholders. I asked him whether this was actually a profit, because although the president claimed that the commuter service does make a profit, the expert does not call that actually a profit in a sense, and I was trying to determine whether the service makes a profit or not. But, what concerns me right now is that with the figures that I have here for a commuter service, if this applied, then I feel that if this type of legislation would apply, this 150 per cent on top of variable costs, which I feel are within the variable costs, there is a profit to the shareholders, and there is covered also all the other charges connected with the borrowing of money, the commuter service would have to pay another 150 per cent on top of the variable costs. If this should apply say to the commuter service as it applies to the captive shipper, what would be the result as far as the commuter service is concerned?

Mr. BORTS: It does not apply to the commuter service, though.

Mr. ROCK: No, I know it does not, but if it does, how far can you go with the commuter service in determining percentage of profit on top of variable costs? I have a very difficult time to understand.

Mr. PICKERSGILL: Would you like me to answer that question?

Mr. ROCK: Yes, I would Mr. Pickersgill because—

Mr. PICKERSGILL: The railway could not prove a loss on a commuter service if it got anything over its variable costs.

Mr. ROCK: Yes, well Mr. Pickersgill, mind you—

Mr. PICKERSGILL: It could not prove a loss. I say it would not be making any profit on it, but it could not prove a loss, unless the commuter service was the only thing on the line—unless the line was used exclusively for the commuter

service and they could abandon the line if the commuter service were stopped. But if the commuter service is merely going to travel on a track that is going to be there anyway, past stations that are going to be there anyway, they could not prove a loss if they get their variable costs, so that the 150 per cent has no relation whatever to the commuter problem.

Mr. ROCK: No, I understand that there is no relation to this, but I am just making a parallel Mr. Pickersgill, as to where these supposedly captive shippers stand with the variable costs plus the 150 per cent.

Mr. PICKERSGILL: Well, that is supposed to pay a share of the overhead costs, too.

Mr. ROCK: Well, the overhead costs are within the variable costs.

Mr. PICKERSGILL: No; they distinctly are not. There are no overhead costs in the variable costs.

Mr. ROCK: Well, according to these figures here we have I would say everything, wages, fuel, engine house expenses, lubricants, train supplies, terminal switching expenses. We also have equipment depreciation. What would you call this?

Mr. PICKERSGILL: Well, I would call those variable costs because if you did not have your service you would not need to incur those costs.

Mr. ROCK: But this is all overhead.

Mr. PICKERSGILL: It is not overhead. Overhead is the line, the station.

Mr. ROCK: Well, that is all in here by percentage.

Mr. BORTS: These variable costs do not include a portion of costs which the cost people cannot allocate to any particular service. They are referred to as overhead.

Mr. ROCK: Well, now you have answered my question; I can understand now.

Mr. BELL (*Saint John-Albert*): Well, I would just like to compliment the two professors, because I am sorry I have to leave early Mr. Chairman, with respect to their briefs, I think that they have been very helpful, and although they are a little late in our hearing, the advantage I think has been that we understand them better, and there is plenty of time to be used extensively when we begin the second stage of the measure in the house. In the third stage it will be up to the Minister to put it into practical effect in this giant bureaucracy they are in.

The CHAIRMAN: Any questions Mr. Bell?

Mr. BELL (*Saint John-Albert*): My question—

The CHAIRMAN: I think Mr. Olson is influencing you too much.

Mr. BELL (*Saint John-Albert*): Well, everybody knows the Minister is going to leave on an important matter down south, and he will probably get there, but there may be a little bit of noise before he goes.

My first question, Professor Borts, is with respect to the table that you have filed, and I want to preface it with just a brief background. The CPR made a



great case of the free negotiation, the free enterprise nature that takes place on the large shipments, and they said this, of course, ties into the type of company they are in our economy. And we have some evidence, of course, that not too many of the agreed shippers come forward. We also have the evidence of the western provinces, in particular Manitoba, who claim that a lot of these large shipments are bulk cargoes, and they are in near monopoly situations, and a particular shipper can hide the extra costs, if there are any. It is lost in the economy, and the region suffers because of this. I wonder if you—

Mr. BORTS: What is it that is lost in the economy?

Mr. BELL (*Saint John-Albert*): The extra rate that might be there; in other words, the particular shipper, where he is in a monopoly or near monopoly situation in his commodity. It may be national or international. It does not show up, but it is lost in the economy in various ways and costs rise accordingly. There may be new industry involved, and the like. I wonder if you could develop this point and suggest how serious it is.

Mr. BORTS: Are you saying that there is a certain class of shippers who have such a monopolistic market of their own products that they can easily pass on to their customers any increases in rail rates?

Mr. BELL (*Saint John-Albert*): It does not loom as large to them as it might, and therefore they are not as concerned about coming forward and declaring themselves.

Mr. BORTS: And consequently they are going to bear—not willingly—but uncomplainingly a higher percentage of mark-up than they would bear if there were greater competition.

Mr. BELL (*Saint John-Albert*): Well I may not have explained their case too well, but I took it that this is one of the major reasons—

Mr. BORTS: Well, this has been one of the major reasons that the railways have traditionally been able to charge certain high burdens for certain classes of shippers. In other words, that they have always been in a position where—depending on the nature of the regulatory environment, of course, they have always been in a position where they can bargain with a shipper over the rate, and try to bargain in a way where they do the best in terms of the revenue of the railway. Now, this is the traditional way in which railway overheads have been recovered. I think the difficulty with that—there are two difficulties with that; one I have already stated—is that it does lead to a degree of economic inefficiency in the economy in a sense that different shippers are paying different mark-ups. Secondly, it does not allow for the possibility that over time as the shippers markets get more competitive themselves, the shippers are less able to pass these rates on to their own customers. Because over time, as the economy of the country develops, you undoubtedly get more competition, not only in the transport market, but more competition in the market for all of the goods and services which shippers sell and produce. So I think that this traditional method of collecting burden has afforded less and less revenue to the railways. This is their problem; this is also complicated by the truck competition which has come in and struck directly at their ability to correct revenues in this fashion.

Now, the point that I have tried to make in my testimony is that collecting burdens in this fashion has always placed shippers at differential disadvantages

with respect to each other; because you have discrimination with regard to the length of the haul, you have discrimination between shippers and different industries, and that it is more desirable to try to collect overheads in a different way, or to place less reliance on this method of collection.

Mr. BELL (*Saint John-Albert*): In other words, one part of your contention is that this 467 per cent figure, for example should be of great concern to the railways on a long term basis?

Mr. BORTS: No; what I am saying is that this 467 per cent is just an indication of how little protection shippers of this kind are going to get under the bill. I am not claiming that any shipper is paying this at present. In fact, one of the great question marks hanging over these proceedings is what, in fact, shippers are paying.

Mr. BELL (*Saint John-Albert*): Would you not have shipments up to the weight of nearly 130,000 pounds?

Mr. BORTS: I am sorry?

Mr. BELL (*Saint John-Albert*): Would you have many bulk commodities up that high?

Mr. BORTS: Presently bearing in fact a markup of this kind? I would doubt it very seriously.

Mr. BELL (*Saint John-Albert*): But the economy of the heavy shipment is not being passed on in the way it should be in a free enterprise. In other words, what I am trying to say is that the railways are making a case of the free enterprise nature of it, but it evidently is not being passed on to the—

Mr. BORTS: The free enterprise argument, as I understand it from these proceedings, is that the transportation environment has become more competitive over time, and therefore the railway enterprises should be treated as free enterprises in their ability to set rates, and should be freed from any government control over what they can earn on their total capital.

I am concerned that while this argument in terms of its premise is correct, namely, that the transport environment has become more competitive, believe the problem is that some of the responses to it as specified in the bill could make the rest of the economy less competitive. If you give an agency the power to discriminate in price, which really is the power you are presently giving to the railways, then you are reducing the degree of competition in the rest of the economy by giving the railways the power to set a rate for Mr. "A" different from Mr. "B" and, therefore, affecting their ability to penetrate different markets.

Mr. PICKERSGILL: I wonder if I could ask you a question in clarification of Mr. Bell's question? Is it your contention that the maximum rate formula in clause 336 would, in fact, not only provide protection, but possibly even some reduction in rates for highrated commodities in small units?

Mr. BORTS: Well, not small; from 30 to 50 thousand pounds.

Mr. PICKERSGILL: You mean that the maximum rate formula does not provide any realistic protection for bulk shipments, and particularly for bulk shipments over long distances?

Mr. BORTS: That is correct.

Mr. PICKERSGILL: Is that a correct statement of your position?

Mr. BORTS: Yes.

Mr. PICKERSGILL: I would have to agree with that, and I would go even further and say that it was not intended to because these people have never been charged maximum rates in Canada. They pay commodity rates which were always negotiated with the railways below the maximum rates until the freeze of 1958. Since they have never paid the full maximum rates, it was not felt that they needed any protection under new legislation.

Mr. SHERMAN: I just want to say to the Minister that I agree with the question that was asked, but I also suggest that this is the reason why the provinces out west cannot answer your wire to them. That is why they cannot supply this information. But we get back to the philosophy of the MacPherson report, and this is where we always end up. With respect to the definition of the captive shipper—and assuming we might have to live with that—do you have any suggestions for improving this narrow definition?

Mr. BORTS: The only suggestion I have is to do away with it entirely and go to the concept of a ceiling on markups, which might be what the Minister had in mind to begin with.

An hon. MEMBER: Well, we hope so, but we have no indications.

Hope springs eternal! I have one final question about the cost formula, Mr. Chairman, and that is concerning the breakthrough that was made in the United States with respect to the exposure of the costing figures of the railways. . .

Mr. BORTS: This is required by statute.

Mr. BELL (*Saint John-Albert*): It has been required for quite some time.

Mr. BORTS: The railways have been required for quite a number of years to provide annual data to the commission on their system total operations under a uniform system of accounting, not broken down, necessarily, by division or branch.

Mr. BELL (*Saint John-Albert*): Did the railways resist this at one time?

Mr. BORTS: I really do not know.

Mr. WILLIAMS: The right to require uniform accounts and to collect information of that kind goes back to the original act of 1887.

Mr. BELL (*Saint John-Albert*): There have been no serious wounds because of it, in a very highly competitive situation so we can draw the conclusion that in Canada, with the—

The CHAIRMAN: We do not know that, Mr. Bell. You did not give him a chance to answer.

Mr. BORTS: I am sorry, I did not hear the question.

Mr. BELL (*Saint John-Albert*): I was asking a double-barreled question. In your opinion, could we in Canada move into a disclosure of certain parts of this over-all problem without a full disclosure which might do damage?



Mr. BORTS: I do not see how you can have costing carried out through the commission process without full disclosure.

Mr. BELL (*Saint John-Albert*): At least we could try a new approach to one of the problems in an experimental way.

Mr. BORTS: Yes.

Mr. BELL (*Saint John-Albert*): My final question is, would you not agree also that if there has been no serious injury to the competitive position in the United States, in Canada, with the very narrow level of competitive position here, there would be less damage from such disclosure?

Mr. BORTS: I have never been convinced that disclosure was harmful, so I am afraid I do not know the answer to that question.

The CHAIRMAN: Mr. Sherman.

Mr. NOWLAN: Just a supplementary question—

The CHAIRMAN: No supplementary questions, Mr. Nowlan. I will put you down for questioning, Mr. Sherman.

Mr. SHERMAN: I have just one question, Mr. Chairman, and I would like to ask it of the Minister. Despite limited embargoes against preambles, I would beg the indulgence of the Chair to set the stage for the question.

The CHAIRMAN: Just ask your question, Mr. Sherman.

Mr. SHERMAN: I cannot ask it without—

The CHAIRMAN: I am sure you can with your experience.

Mr. SHERMAN: I cannot ask this question without setting the atmosphere.

The CHAIRMAN: I am sure the atmosphere has been set with two months' hearings, and I am sure you can ask the question from the briefs, Mr. Sherman.

Mr. SHERMAN: Well, working from the briefs, Mr. Chairman, I would like the Ministers' opinion. We keep coming back like a song to this reference to the fact that despite the invitation from you and the Prime Minister, you have received no appeals or no submissions from anybody in the west asking that they be classified or categorized as captive shippers.

Mr. PICKERSGILL: We asked the three provincial premiers if they would give us a list of those people they would regard as typical captive shippers, and there has been no affirmative response to that request from the three premiers. That is the only point I made. I tabled all the documents with the request; that is a fact. I am a politician and a fairly tough-hided one, and I do not resent things very much, but I am just faintly resentful of the constant references to the refusal, because when an offer was made it was not accepted.

Mr. SHERMAN: I did not mean to misrepresent the situation, sir,—

Mr. PICKERSGILL: No, I know you did not.

Mr. OLSON: The point, for some of these costs that was refused—

Mr. SHERMAN: The point is that there has been no reply from the quarters which you approached on this question; no reply to the suggestion that some captive shippers—

Mr. PICKERSGILL: The premiers of Manitoba, Saskatchewan and Alberta have never, since those messages were sent, given us any list of those they consider would be typical captive shippers. That is a fact. That is all I am saying, and I am not drawing any inferences from it except that it is a fact.

Mr. SHERMAN: But up to this time there has been no opportunity, or the time has not been ripe, for potential captive shippers under the legislation, in the west, or anywhere in Canada, to submit their own argument—

Mr. PICKERSGILL: Not to make a claim under the law, because it is not the law yet. But I would have thought that in view of the apprehensions that are expressed about this matter, if there had been any large and important group of these people they would have come forward to make representations against the legislation, or for modification to it.

After all, the coal operators in the Crows Nest did come forward, and they said they considered they would be captive shippers. I think we were all satisfied that they are in fact captive shippers in the sense that there is no alternative way to ship their coal. But they would not be the kind of captive shippers who would ever be interested in the maximum rate formula, because they require a far better rate than anything that we would be likely to set as a maximum rate generally. The Wabush Corporation of Labrador also came forward and said they were captive, but no other witnesses have appeared before the Committee to say that they were likely to be captive shippers under this legislation, and that they objected to our formula. That is a fact. Each of us will draw our own conclusions from that fact.

Mr. SHERMAN: I accept that, sir, but in the light of the weighty deliberations that revolve around this proposed legislation; in the light of the experts whose opinions have been brought to bear in our deliberations and the controversy surrounding it, it is not necessarily reasonable to infer that just because the provincial premiers in western Canada have not replied to that request no shippers are going to ask that they be classified.

Mr. PICKERSGILL: Having heard Professor Borts this morning, I am sure there are some who are going to be. If his arithmetic is right and some people would get a rate reduction, I have sufficient confidence in the intelligence of Canadian businessmen to feel that those people are just waiting for this legislation so they can come after the—

Mr. SHERMAN: I just wanted to push the counterimpression, sir. There was an impression building that nobody was going to ask for such classification.

Mr. PICKERSGILL: If I remember rightly, and I may be wrong, when Mr. Molgat made his representations he told us that he and the people who had helped him to prepare his brief had made a thorough search of Manitoba to try to find some typical captive shippers and that they had given up. I think you can draw some inferences from that.

I also draw the inference that Mr. Roblin, who is also a pretty bright fellow, did not produce any and Mr. Mauro did not give us any when he was here. There are not too many of these obvious potential victims. That is all. This is just the inference I draw.

Mr. SHERMAN: Mr. Minister, now that you and I have laid the atmosphere—

The CHAIRMAN: Mr. Sherman, would you, please—

Mr. SHERMAN: Now, that we have completed the preamble—

The CHAIRMAN: Laying the atmosphere is taking up your time.

Mr. SHERMAN: Mr. Chairman, the Minister and I have completed the preamble and now I would like to ask my question, Mr. Minister, would you suspect that some of these potential captive shippers in the west might not have anticipated the very argument that is advanced in this excellent brief by Professor Borts, and which is specifically spelled out in paragraphs on pages 6, 8 and 9? If I may just paraphrase, to make the point, Professor Borts says on page 6: "There is no question that the rate formula provides less and less protection to the potentially captive as the weight of the shipment increases, and least protection to those shippers who are the natural captives of rail service".

On page 8 he underlines that point by saying that none of the traffic referred to as low-rated traffic would find any inducement to seek captivity, and on page 9 he says:

We may conclude, then, that the rate formula provides some relief to the shippers of high-rated commodities whose loads fall short of 35 tons—The traffic which is truly captive in the economic sense consists of heavy loading commodities who find the railway more advantageous than truck alternatives because of the present technology and cost of rail operations. Because of the biases present in the rate formula, shippers of such commodities can find no relief.

Then, I would ask you, sir, why should anybody indicate that they are going to apply for such classification. If they had done the analysis that Professor Borts has done they cannot find any merit or value or purpose in—

Mr. PICKERSGILL: I have a very simple explanation for that. If I were in that category of persons and I had a large business, shipping bulk commodities over a long period and I felt that the protection I now had in the present Railway Act was being taken away by this legislation, I would be here with the best lawyer I could hire to say that that protection should not be taken away or that some equally good protection should be put in its place. The fact, again apart from the Wabush case and the coal operators, no such person has done that, suggests to me that most of these large shippers of bulk commodities have already made pretty satisfactory deals with the railways from their own point of view and they are not worried about the legislation. Now, that is the conclusion I draw from the set of facts.

Mr. SOUTHAM: Mr. Chairman, I too, like to associate myself with the remarks of Mr. Bell in complimenting Dr. Williams and Dr. Borts on their very excellent and analytical briefs this morning. Mr. Bell covered one or two of the questions that I had in mind. I would like to go back to his last question which had to do with the confidential nature of railway cost data as explained by the witnesses and the fact that this confidential data has been made available in the United States to the Interstate Commerce Commission. I have been greatly concerned, and I think most members of the Committee have been concerned to hear witnesses from the C.P.R. and the C.N.R. say that they wish to keep this information confidential. I cannot do anything else but wholeheartedly agree with the witnesses this morning that before we can really get down to settling a



lot of these problems, even under the new commission which we are setting up here in Canada, we have to have more access to this information. Now, did you find any difficulty in the United States in developing this type of legislation or making it necessary to provide it. Was there much opposition to it over the years by railroads or by other modes of transportation?

The CHAIRMAN: That question was asked. However—

Mr. WILLIAMS: Maybe I should speak to it since perhaps I have had a little more direct connection with it. We really first at the federal level developed a cost formula and cost data and publications in connection with the class rate case of 1939, which corresponded in general purpose with your freight rate equalization proceeding here a few days later. There was no legislation required. The issue was one of whether there was discrimination of an unjust character in the territorial levels of the freight rates, and manifestly cost is one thing which could be considered in conjunction with such discrimination and indeed if one looks at it from an economic point of view, it is differences from costs that create a discrimination whether or not it is unlawful. So the commission merely served order upon the carrier respondents in that proceeding requiring them to make certain special studies and submit certain information in addition to that which was already in their regular annual reports and other reports to the commission.

The work was curtailed somewhat but it was curtailed not because of any opposition on disclosure but because the proceeding was going forward right in the middle of the World War II and the carriers complained that it would place an undue burden on them in terms of information collection. So the program was somewhat curtailed. I heard no evidence of any concern on the subject of disclosure. What came out, of course, was territorial cost formulations and they have been annually adjusted to reflect changes in price levels and the like and issued publicly by the commission so that anybody can simply write in and get a copy for a very nominal figure. The same is true of the formula itself which is available and even now we have a computer program which anybody can acquire from the government for the purpose of working the formula through his own computer facilities. I heard no objection on grounds of disclosure. Now, that does not mean to say that there are not some things of which disclosure is forbidden in our law, particularly, matters which affect relationships between railways and shipper in which some particular traffic is involved, where disclosure might have the effect of opening the eyes of the competitor to a piece of business that he could go after.

We do have some non-disclosure provisions in the interstate commerce act but they do not touch cost finding matters and I never knew the question to be raised.

Mr. SOUTHAM: Thank you, Dr. Williams. I would like to ask Mr. Pickersgill now, in view of the testimony which these witnesses have given and in view of the fact that we have had so much concern over the confidential nature of cost data, do you not think we could make this bill more flexible by inserting something in here making it mandatory for this to be made available?

Mr. PICKERSGILL: Well, I think if you excluded the exclusion just mentioned by Prof. Williams, we would have very little trouble there. Because as I understand the objections of the railways it is only to revealing precisely the kind of

information that he has said is confidential also in the United States; that is, information about the relationship between the railways and the shipper. I never understood that the railways have any objection, even though our situation is very different from that of the United States where you can scabble figures among a great number of companies. Here, for practical purposes, we have only two and it is pretty easy to identify. I have never understood that our railways have any objection to the publication of global information about the whole operations of the railways. But, when you start to require them to give the information with respect to particular individual shippers and do not ask the shipper to give his costs and his profits to see whether he can afford to pay a higher rate, it seems to me that this is the grossest discrimination against the railways. You are telling the railways you want them to make money and you are saying that they have to give information which will be very helpful to their customers in trying to beat them down. I do not think parliament ought to do that. I think the railways are entitled in the competitive field to the same kind of environment as in other fields.

Of course, there is another aspect of which the railways in Canada are very different from the railways in the United States. The railways in the United States are treated as public utilities and in most fields their rates are regulated. What we are trying to do here is to get away from that; to get away from all this bureaucracy and all this business of having to hire experts and prove that rates are fair and so on. That is what I would call medievalism. We are trying to get a really competitive environment so the railways will not be losing traffic at the rate they are. In the last 20 years they have lost it to other modes of transport. I do not mind their losing to other modes of transport if the other modes of transport can compete more effectively. I think it is good for the country. But, if we tie the hands of the railways so they cannot compete, if we say that they have to spend six months getting a new rate in order to get business, then the shippers are not going to be bothered with this. They are going to ship by some alternative mode. We are trying to get away from that. So long as you can conceal any costs which affect the customer-railway relationship and the competitive relationship that give the truck companies, water transport, air transport, an advantage over the railways, I do not think there is any problem about the rest and I do not think there ever has been. Of course, in so far as the new commission is concerned, and I want to make this very clear, the commission can require from the railways all their information. There is no limit to what they can ask the railways to provide. All the commission is being told in this bill to do is that they must protect the confidentiality of the information when they get it—just as the bureau of statistics does—when it is otherwise going to adversely affect the competitive or bargaining position of the railways. I do not think there is very much difference between what Dr. Williams said just now and what I am saying.

Mr. SOUTHAM: Well, this is what I was trying to clarify, Mr. Minister. I think that we have had the feeling that there is far more disclosure of cost data in the United States under the Interstate Commerce Commission than we have here. Over there their approach to these problems apparently has been fairly satisfactory, I think, through experience. I was hoping we could incorporate—

Mr. PICKERSGILL: I do not think it is very satisfactory.

Mr. SOUTHAM: I agree with you that we cannot have the disclosure of cost data of the shippers and not give it to the customer of various modes of

transportation. I am advocating simply that all cost data be made available because it would work to the best interest of all Canadians. I think because we work in a free enterprise system that people are fair-minded regardless of what they are doing, whether they are in the shipping category or whether they are in the transportation carrier area. They would be fair enough to see that justice was done in the long run and that it would work to the best interest of everybody.

The CHAIRMAN: It is a very good idea but unfortunately it does not work out that way.

Mr. OLSON: Mr. Chairman, I wonder if I might ask the Minister this question. He claims that the provinces were unable to supply him with the names of anyone who would be a captive shipper or who was potentially a captive shipper. I wonder if he is not a little unfairly trying to relate what would be a potential captive shipper within the definition of a captive shipper in this bill, first of all, to class rates if he is now trying to equate that. Then, I wonder if he would like to try and explain whether or not this is a fair equation when what I understood the premiers were interested in were shippers who would potentially contribute a higher relationship to overhead and profits that may be unjust.

Mr. PICKERSGILL: I think I would have to say that the class rates—I understand, and I can be corrected if I am wrong, that there is a class rate as well as a commodity rate for all these people who have commodity rates and that the commodity rates were originally, some time before 1958 when they were frozen or 1959, whichever it was negotiated rates and, therefore, they were not maximum rates. It does not seem to me that if the shippers were able before the freeze of 1959 to make a bargain with the railway that gave them a better than the maximum rates that the passage of this bill would reduce the bargaining power. It does not seem to me since they obviously did not need the protection before 1959 that they should suddenly become helpless and need protection now. That is my point.

Mr. OLSON: Is it not possibly that these premiers may not be so worried about what was in the old bill that may be taken away, as they were of the future protection of maximum rate control, because I know that there are some of them that did not necessarily agree with the maximum rate control that was embodied in the old bill.

Mr. PICKERSGILL: Yes, but they have not come forward with any radically new formula to meet the problem.

Mr. OLSON: I will turn to that now, Mr. Chairman. I would like to ask Dr. Borts this question. I am rather impressed by the third alternative that he has suggested on page 13 where he suggests that a very simple formula as far as maximum rate control would be to put a ceiling on mark-ups. I would like to put the question to you this way, sir. If this were accepted as a principle and the necessary language was included in the bill to give effect to it, we would not need to be bothered about defining a captive shipper, physically, economically or any other way, but still it would leave the railways with the freedom to make rates up to a maximum of variable cost plus whatever the commission may determine as a reasonable contribution to overhead and profit.



Mr. BORTS: It would also relieve the commission of the need to undertake lengthy cost-finding exercises for all shippers who chose to become captive. The cost-finding exercise would only become necessary upon request from a shipper to have a rate increase suspended.

Mr. OLSON: Yes, I was going to ask some questions about this definition of captive shipper but it is pretty well explained in your brief. I have a question which should have been asked as a supplementary to Mr. Rock's questioning respecting the cost of money as a component of the variable costs. I want to be very clear on this. In your opinion, is there a provision in depreciation at all for cost of money or cost of investment?

Mr. BORTS: Depreciation is simply recovery of capital without a rate of return.

Mr. OLSON: Yes, but it is a recovery of 100 per cent of the capital, is it not?

Mr. BORTS: Under depreciation?

Mr. OLSON: Yes.

Mr. BORTS: That is correct. That is the expectation, yes.

Mr. ROCK: Over the long-term?

Mr. BORTS: Over the life of the capital instrument, yes.

Mr. OLSON: Yes. Then if there is a provision for the cost of money—and clause 387 (a) says, for any money expended whether or not the expenditure was made out of borrowed money or not—whatever that amount would be, would be return net earnings on capital investment, would it not?

Mr. BORTS: That is correct.

Mr. OLSON: Then if there is an allowable in the variable cost for cost of money, the net earnings or the requirements for net earnings have already been taken care of up to whatever that percentage is?

Mr. BORTS: The point is, if you were to charge a captive shipper the variable cost plus the cost of money he presumably would be making a much lower contribution to the burden of the railways and the overhead of the railways than captive shippers at large are presently making.

Mr. OLSON: I do not quite understand that.

Mr. BORTS: It is conceivable that captive shippers could be charged variable cost, period, which included the cost of money.

Mr. OLSON: Yes, but not under the present formula for applying maximum rate control?

Mr. BORTS: That is quite right. But if this were to happen then you would conclude that he was making a much smaller contribution to the overhead than he is presently making.

Mr. OLSON: Thank you. That is all, Mr. Chairman.

Mr. JAMIESON: Mr. Chairman, I will be very brief. I would like to follow up on what Mr. Olson was asking with regard to this third alternative on page 13. I am still puzzled as to how this would help the still imaginary captive shipper. For example, let us take the heavy load shipper, the person with a heavy weight

commodity who has been able to negotiate a rate with the railway. If you are going to put a ceiling on mark-ups this would either have to be at the level that he is now paying or below it for it to be of any advantage to him. Is this correct?

Mr. BORTS: It would be at the level he is now paying.

Mr. JAMIESON: What you are really saying is that in so far as this particular group of shippers is concerned they will not, under any circumstances, be obliged to pay more?

Mr. BORTS: Exactly.

Mr. JAMIESON: I simply cannot imagine this kind of a situation being applied all the way through.

Mr. BORTS: Why not? The railways claim they want the power to cut rates. Why give them the power to raise rates as well?

Mr. JAMIESON: No, but this is not the point. Surely to goodness there is a corollary to that top. If you are going to put this as the maximum, are you suggesting this should apply to every classification and to all goods that are moved by the railways in any form anywhere in the country?

Mr. BORTS: Precisely.

Mr. JAMIESON: Then you must be in opposition to the basic principle of this bill, which is to allow the so-called competitive forces to determine the rates. In other words, this is surely in opposition to what the bill intends.

Mr. BORTS: The railways are not going to generate additional traffic by raising rates, sir; they will only destroy traffic by raising rates. They claim they want to generate additional traffic; give them that freedom.

Mr. JAMIESON: Yes, but I repeat this is surely at odds with the original conception of this bill and the whole thing we have been talking about for months, which is to allow this to take the form of being captive to the market place.

Mr. BORTS: If you allow the railways to lower some rates and raise other rates you are reducing the degree of competition in the rest of the economy because you are widening the gap between different producers.

Mr. JAMIESON: You talked about the captive shipper and you have brought this in as a part of a solution to the problem of defining a captive shipper, but does it not go a great deal further than that?

Mr. BORTS: What does, sir?

Mr. JAMIESON: The suggestion, in other words, that this should be on the basis of a limited markup.

Mr. BORTS: I would apply this to everyone.

Mr. JAMIESON: But the fact is that you brought it in on the basis of the argument over the captive shipper situation.

Mr. BORTS: The reason for that is the original maximum rate formula proposal was to protect rate shippers against bearing an undue proportion of overhead. This is another way of doing it.

Mr. JAMIESON: But coming back to this point; if there were no captive shippers within the terms of this act, or if there were no shippers who were likely to be jeopardized by the other provisions of this act, then would you still suggest that this is an alternative?

Mr. BORTS: I think this is one way of carrying out the initial requirements of the Royal Commission report, of protecting people in areas of significant monopoly at the same time that you free the railways to act more competitively in other areas.

Mr. JAMIESON: If this proposal were brought into effect—we talked about trying to eliminate some of the bureaucracy—I gather this would have to be on some kind of a sliding scale; in other words, we just could not have a fixed figure and have it last for X number of years. Would there not be variables almost constantly?

Mr. BORTS: What, the markup?

Mr. JAMIESON: In the whole business of assessing the markup and the relationship between it and costs and so on? One would have then to test this—and the Commission would have to test this—against every kind of rate in which the railways are involved. Would this not be an enormous and continuing exercise in testing and checking?

Mr. BORTS: You can make life as difficult as you want to. If you want to keep it simple, just keep these markups; then all the commission has to do is investigate requests for suspension of rate increases when a shipper suspects that the burden he is bearing has gone up as a percentage of variable cost.

Mr. JAMIESON: In your view, what would be the result of the introduction of this? Would it not result in virtually every shipper of any size being free at almost any time to express the suspicion and consequently prompt a whole search to determine whether the markup has gone up?

Mr. BORTS: Only if rates go up year after year. But, if the rates do not go up then there is no cause for a shipper to complain. I am sorry; let me take that back. You could conceive of another circumstance where a shipper could complain even if the rates were frozen if you had an environment of very rapid technological change. If the variable costs started to fall the shippers might suspect that their burdens were going up, so it might work the other way as well. But in the present inflationary environment I suspect the chances of that are not too likely.

Mr. JAMIESON: Mr. Chairman, I do not wish to keep the committee. I think there are a great many other questions to be asked on this. I simply would like to ask one other question.

The CHAIRMAN: You have lots of time.

Mr. JAMIESON: Well we have not; it is 12.30 now.

The CHAIRMAN: We adjourn at one o'clock in this committee, Mr. Jamieson.

Mr. JAMIESON: I was not aware of that. Once again, on this matter of captive shippers—and either one of you gentlemen could answer—it has been stated fairly repeatedly before this committee that there is a factor that does not come into any of these calculations and is not mentioned in your brief although it has



been referred to in some of the questioning, and that is what I think was described as the competition of the marketplace. I think this was the thing the minister was referring to a few moments ago, when he talked about the ability of large shippers to negotiate without the benefit of any kind of protection or other device within legislation. Is this your general experience? In other words, if we were to have what I seem to indicate here is a preferred formula, would many of these bulk commodity shippers in your view really be interested in taking advantage of it?

Mr. BORTS: Taking advantage of captivity?

Mr. JAMIESON: Yes, declaring themselves captive?

Mr. BORTS: Under the present rule, no.

Mr. JAMIESON: But under what kind of a rule? We have already explored your third alternative.

Mr. BORTS: Under what kind of a rule would they—

Mr. JAMIESON: When would it be to the advantage of a large iron ore shipper or a large shipper of mineral products?

Mr. BORTS: When he can get a rate below the rate he presently has.

Mr. JAMIESON: But you have already said, though, that in order to do that he would have to establish the rate at what it is now, even under your third alternative, would you not? So, he cannot negotiate below that rate.

Mr. BORTS: Unless a man can get a rate below what he is presently paying there is no inducement to prove captivity.

Mr. JAMIESON: Is this not the weight of the argument that has been advanced here, that these heavy commodity shippers are, in fact, able to do that and can do it, in fact, better than with any legislative help that anyone can give them?

Mr. BORTS: I must repeat that I cannot characterize the bulk commodity shippers as a group for absence of adequate data on their costs and their revenues. We have been able to make some small inferences from published data, but this committee has not had enough information to answer your question.

Mr. PICKERSGILL: I wonder if I could ask just one question that perhaps might clarify the point. Are you not making a tacit assumption based on United States experience where rates are all fixed, that what we are seeking here is to provide a fair rate and not a maximum rate? We are seeking, in our legislation, to leave the setting of rates to the marketplace, with a protective ceiling. The kind of rates you are speaking of, with a fixed markup over costs, is surely what I call the mediaeval concept of a fair rate. You say the legislator is better able than the marketplace to determine what railway rates should be. Now, in the main, that has been our concept in Canada, too, but that is what we are trying to change.

Mr. BORTS: I am trying to be responsive to the recommendation of the Royal Commission, that areas of significant monopoly receive some kind of protection. This recommendation of the fixed markup is one way of providing that protection.

Mr. PICKERSGILL: I am going to ask just one other question, if I might. Do you now think that anyone who has a commodity rate who was, in the past, able to get from the railways, by bargaining, a rate lower than the maximum rate, is therefore not subject to significant monopoly and, therefore, does not need to be protected?

Mr. BORTS: Well, he may still need certain kinds of protection which have been eliminated from the bill other than the protection of a markup.

Mr. PICKERSGILL: Well, what?

Mr. BORTS: He may need protection against discrimination.

Mr. PICKERSGILL: That, we are putting back in the bill.

Mr. JAMIESON: We are talking here purely on the rate.

Mr. BORTS: You were speaking of markup over variable cost; in other words, you are saying in view of the fact that he has already been able to negotiate a markup over variable costs—

Mr. PICKERSGILL: He has already been able to negotiate for a rate below the present maximum.

Mr. BORTS: —below the present class rate structure, why does he need protection?

Mr. PICKERSGILL: That is right.

Mr. BORTS: I am not sure that he is going to get any protection. I am not sure that he is in that category.

Mr. PICKERSGILL: But I am asking you why does he need it? I am not asking you whether he is going to get it. If he has already been able to get a more favourable rate in the marketplace why should the legislator in Parliament be bothered trying to protect him. That is my point.

Mr. BORTS: I am not sure that he falls into the category of the group that was to be protected, to begin with. The group to be protected, to begin with, was the category in the area of significant markup, significant monopoly bearing undue burden.

Mr. PICKERSGILL: That is right; in other words, the people paying the maximum rate now.

Mr. BORTS: I am not sure they are paying only maximum rates. The question would have to relate their rate to their costs.

Mr. NOWLAN: The minister mentioned in the United States it is a fixed rate plus some markup. Is there anything in the United States similar to your suggestion under no. 3?

Mr. BORTS: No, for the very obvious reason that I am trying to suggest ways consistent with the remainder of the legislation which we do not have in the United States either. We have an entirely different regulatory setup.

Mr. NOWLAN: The present rate structure means that the federal government has to subsidize the two railways to the tune of \$100 million on the basis of the present rates. Under your proposal number 3 this would have to be continued.

Mr. BORTS: Not necessarily, no, because if the railways are free to generate traffic through rate cutting, this may eliminate some of their over-all deficits.

Mr. NOWLAN: My other question is supplementary to the question Mr. Bell asked. I did not know that supplementary questions were out of order. I was going to make a point of order with the Chairman. However, Mr. Bell was asking about publication and disclosure of cost data of the railways. Do other forms of transport in the United States likewise have to disclose their cost data?

Mr. BORTS: Yes.

Mr. NOWLAN: Do you think the way the rates are set in the United States, which is known for free enterprise, is any more mediaeval than what we are going to have to go through in trying to fix the rates on the basis of a 30,000 pound fictional load factor, plus the imaginary 150 per cent? Would you care to express an opinion on that.

Mr. BORTS: No. I assume the minister was not serious when he attributed things as being either mediaeval or modern.

Mr. PICKERSGILL: I was only talking about a mediaeval concept. In the Thomist philosophy in the mediaeval world, as you know, there was the concept, of the just price, before the days of us puritans who introduced the idea of free competition.

Mr. NOWLAN: Well, you still have a just price.

Mr. BORTS: Wherever we have public utility regulations, we have to arrive at some concept of either a just price or else a just rate of return on the capital of the controlled corporation.

Mr. NOWLAN: On the basis of a fictional start, a 30,000 pound load, along with 150,000, in your experience do you see any less bureaucracy in the interpretation of this contemplated new act, or is there going to be bureaucracy to try to define what the reasonable rate should be?

Mr. BORTS: I will put it this way; I think the Commission is going to have an interesting time.

Mr. BYRNE: I would like to ask Professor Borts if he believes the Commission would make a better determination of a rate if all information were made public.

Mr. BORTS: If the information remained, say, confidential, then the Commission cost information can never be examined by other parties to a cost proceeding. In view of the fact that the whole Commission procedure requires hearing of interested parties and cross-examination of witnesses by interested parties, examinations of each others submissions and so on, it seems to me that the final determination by the Commission requires the complete availability cost information from the carriers.

Mr. BYRNE: It is understood that the Commission will have a staff available to them.

Mr. BORTS: It is understood that the Commission will have a staff and will have all of the information that it desires, but the fact remains that the Commission and its staff should be responsive to suggestions and criticisms from the outside—and there is a barrier placed here through this confidential clause.



Mr. BYRNE: Are you suggesting that the shipper make available to the public his costs?

Mr. BORTS: If the shipper is in an unregulated industry, I would prefer that this not be so.

Mr. BYRNE: Do you have in the United States, a rate comparable to our statutory grain rates?

Mr. BORTS: No, none whatsoever.

Mr. CANTELON: Mr. Chairman, I am sure the witness knows that we have what are called Crowsnest Pass rates in Canada. I assume he has some idea of why they were put in, to protect the large shipper of grain. If these are necessary, I wonder if perhaps there is some necessity for protecting the large shipper of other goods too.

Mr. BORTS: I would wonder if we could keep the question of the Crowsnest Pass rates—which I gather is a matter of history, and they are not under question in the present bill—away from the question of which shippers. If you are asking me, do shippers need protection, I would say if they lack bargaining power; and if they do not have protection they are likely to find themselves bearing very high burdens.

Mr. PASCOE: Mr. Chairman, I would like to ask one question. Would the fact that these two witnesses appear on behalf of Manitoba, Alberta, the Maritimes and so on, indicate that there is concern in those areas over the effect of this bill?

Mr. BORTS: I would guess so, Mr. Pascoe.

Mr. PASCOE: Did they express considerable concern?

Mr. BORTS: Who are they?

Mr. PASCOE: The people you are representing, Manitoba, Alberta, the maritimes.

The CHAIRMAN: I am sure the witnesses would not have been retained otherwise, Mr. Pascoe.

Mr. PASCOE: Well, I am trying to establish why Saskatchewan does not appear on this.

The CHAIRMAN: I do not think that is a fair question, and the witnesses should not have to answer it. Each province has a choice as to what it wishes to do. I have ruled Mr. Pascoe's question out of order, and I would leave it at that.

Mr. DEACHMAN: Mr. Chairman, on a point of order, if people talk on the sidelines in the committee room, what they say cannot be recorded and does not appear in the transcript. I suggest that if anybody has anything to say in this committee it should be recorded, and he should be called forward to where he can be heard.

The CHAIRMAN: When the presentation of the Province of Saskatchewan was made, it was said at that time that they would not be participating. That is not a proper question and I am ruling it out of order.

If there are no other questions, I want to thank, on behalf of the Committee, Professor Williams and Doctor Borts for being with us. Again, we apologise for bringing you here on your Thanksgiving day. Your brief has been very helpful and very useful.

We will reconvene at 3.30 for clause-by-clause study in camera, and the Committee will adjourn until that time.

## APPENDIX A-42

Submission

of

Ernest W. Williams, Jr.

on behalf of

THE PROVINCES OF MANITOBA, ALBERTA, AND THE MARITIMES  
TRANSPORTATION COMMISSION REPRESENTING THE PROVINCES OF  
NOVA SCOTIA, NEW BRUNSWICK, PRINCE EDWARD ISLAND AND  
NEWFOUNDLAND

to

THE STANDING COMMITTEE

on

TRANSPORT AND COMMUNICATIONS

Regarding Bill C-231

November 24, 1966

The comprehensive revision of railroad rate regulation embodied in bill C-231 removes from the statute a.) the concept of a just and reasonable rate and the principle that any party bearing rail freight charges is entitled to such a rate, b.) the concept of unjust discrimination and the right of any person bearing rail freight charges to relief from discriminatory rate relationships when that person operates in a competitive relationship and is damaged thereby, c.) any control over the level of earnings of the railways as a determinant of the average or aggregate level of their tolls and charges and d.) any requirement of advance notice of and filing with the regulatory agency of reduced rates or charges. The only protections retained for shippers or consumers of freight receiving movement by rail are a.) the provisions of Section 334 permitting disallowance of non-compensatory rates which may act to avert the casting of a consequent burden upon other traffic, b.) the provisions of Section 317 to the extent that railway exercise of their rate-making function may prejudicially affect the public interest and c.) the provisions of Section 336 which may accord to a select body of small-lot shippers some protection against unduly high rates. On balance it would appear that, in a laudable effort to confer upon the railways greater freedom to meet the increasingly onerous competitive circumstances which face them, the overwhelming body of users of rail service and their suppliers and customers are to be deprived of any recourse against differences in rate treatment by the railcarriers except such recourse as may reside in their respective bargaining power.

The hitherto existing standards of justness and reasonableness in rates have contemplated consideration of the conditions surrounding the movement of particular kinds of traffic between specified points, including the character of the commodity and its ability to bear transport charges and the loadings per car

actually experienced or to be experienced in the movement. The Royal Commission apparently assumed that, if truck competition were available on any haul, then an effective competitive regulator was present and no protection by a rule of law was required. This seems to be the rationale of the 30,000 pound rule for the determination of a maximum rate. In fact truck competition, even where excellent highways are available and size and weight limitations permit truckloads well above 30,000 pounds, is not an effective alternative to the rail movement of low-grade and heavy-loading commodities except on very short hauls and, even for high-value carload traffic, is not an effective alternative for very long hauls. Nor can it be foreseen that it will become so at any reasonably close time in the future. This follows from the fact that, except on short hauls and on light-loading commodities, truck transport is relatively higher in cost than rail and the further fact that it becomes the more so the farther these conditions are departed from. Hence railroads face effective competition in the movement of heavy-loading long-haul traffic only where navigable waterways or pipelines appear or where the external conditions imposed by export and import markets must be dealt with. This means that large areas of Canada, as well as of the United States, are without an effective alternative to rail transport in respect of important types of traffic movement. The maximum rate formula provided in the bill can have little impact upon the substantial volume of traffic moving under non-competitive commodity rates.

The bargaining power of shippers or receivers of freight in general derives from: (a) the volume and importance of the traffic they control and (b) their ability to divert to other carriers or to transport for themselves. Small shippers lack the first and may lack the second. But large shippers with territorially diversified interests may bring to bear their power to divert traffic in competitive areas in negotiating rates for the non-competitive portions of their business. They stand, therefore, in a different relationship to the carrier. From an economic point of view it is not desirable policy to deny areas which have effective water competition the benefits thereof nor is it desirable to prevent railroads from entering the competition as long as that can be done at compensatory rates. But it does not follow, as an incident to this process, that areas less well furnished or entirely wanting in low-cost transport competitive for the large traffic flows should be denied rates over the railroad system that is in place which are at a level reasonably related to the actual costs of the rail services to which they apply. If they are denied such rates, then their development will be impeded artificially by imposing higher charges upon their business than the costs of transport require.

It is not to be supposed that railroads will consciously adopt a policy designed to impede economic growth upon their lines. They are, however, faced with many pressures. And they are increasingly prepared to recognize and to meet competitive pressures where they develop, for to fail to do so may mean the immediate loss of traffic and revenue. Non-competitive traffic faced with unfavorable rates may not disappear as quickly, and the potential traffic which a more favorable rate policy could bring into being may not be at all apparent. At the least it does not command like attention. The history of United States railroads affords many examples of the manner in which the long-continued meeting of competition at some points while ignoring the non-competitive points may accelerate the concentration of industrial and commercial activity at the



competitive points. Hence the regulatory proposition that carriers be allowed to meet compelling competition, when that can be done with compensatory rates, while just and reasonable rates are maintained at non-competitive points.

Despite the fact that there are important limitations upon the concept of unjust discrimination as embodied in present law and despite the fact that few complaints alleging unjust discrimination have been brought by shippers in recent decades either in Canada or in the United States, the statutory prohibitions have not been without effect. The principles underlying the concept embraced in the statutes were early clarified and carriers seek, as a general rule, to avoid putting into effect rates which may subsequently be judged to be unlawful. Moreover, limitation upon the degree to which discrimination is lawful is an important aid to the carriers in meeting the differential pressures of large shippers. The inability of railroads to protect themselves against such pressures and, thus, to avoid dilution of their earning power led United States railroads which had traditionally opposed regulation to advocate firmly the Elkins Act of 1903 which was aimed squarely at discriminations. Absent such provisions of law, carriers would again face pressures which they might well find it impossible to resist.

Section 317 as it stands in the bill is no substitute for the present provisions of law. It does not appear to be designed for a like purpose. I am inclined to agree with the Canadian Pacific in doubting whether "any person" should be looked to for complaint of prejudice to the public interest. Provincial Governments and other public bodies may be expected to make that type of presentation. On the other hand I believe it important that the person who bears rail freight charges in any instance should have the right to complain of an inequality of treatment in rail freight rates which, in his view, prejudices the conduct of his own business. Section 317 (2) (a) seems to contemplate that such an issue would be investigated by the Commission, but only if there had first been made out a *prima facie* case of prejudicial affect upon the public interest. The individual shipper or receiver of freight is poorly equipped to make a showing concerning the public interest. Nor is the undefined "public interest" likely to be equated to a summation of "private" interests. But the individual user of rail service is equipped to advise the Commission concerning the effect of rate inequality on his business. If private as well as public interest were recognized in Section 317 (1) as a legitimate cause for complaint antecedent to the investigation provided for in 317 (2) (a), Canadian shippers and receivers of freight would be afforded a means of redress against unjustified inequality of treatment and a workable substitute for earlier concepts of public control might well be achieved. The repeal of Section 322 of the Railway Act, however, seems to relieve the railways of the burden of justifying such inequalities of treatment leaving the locus of burden of proof unclear.

It may be of interest that when, in 1955, changes were proposed in the United States which would have applied a maximum-minimum basis of rate control, although on a less sweeping basis of freedom for carrier action than is proposed here, it was argued that the rule of discrimination would require strengthening since it would be called upon to play a larger role in the protection of shippers. In the event, no such strengthening was proposed, but the law was to be left unchanged in so far as it related to unjust discrimination and undue

preference and prejudice, save only in respect of fourth-section relief for circuitous rail routes meeting the competition of the short-line routes.

The question of the maximum-rate formula provided in Section 336 as well as the standards for costing provided in Section 387 will be discussed by Prof. Borts. I have already expressed my belief that the concept of a formula based upon a 30,000 pound carload advanced by the Royal Commission is at variance with that Commission's apparent objective to afford a measure of protection against the undue imposition of overhead burdens upon shippers where they lack an effective economic alternative to rail transport. It appears to me, also, as undesirable to incorporate in a statute a fixed percentage to be applied over variable costs. The relationship between variable and total cost in a railroad system is likely to change over time and it ought not to be necessary to amend a statute in order to recognize such a change. The origin of the 150 per cent is not adequately explained in the report of the Royal Commission, but the markup over variable cost required by the railways ought to be related to their revenue requirements which will change over time. Bill C-231 is silent on this point.

Finally there is the issue of the conditions under which a shipper may be entitled to invoke the application of the maximum-rate formula. The construction that may be placed on Section 336 (1) is certainly unclear. As I have pointed out, the mere presence of transport service by truck does not connote the availability of an economically useful alternative to rail transport in respect of low-grade commodities or, even, in respect of any carload traffic moving over great distances. Section 336 (1) does not make it clear that shippers facing such conditions are entitled to seek the fixing of a maximum rate. Much discussion of possible alternatives to the language presently contained in the bill has not produced anything that is generally acceptable. It may be preferable, in order to avoid precluding an opportunity for shippers to be heard, to return to the self-declaration proposed by the Royal Commission. The latter approach is more consistent, also, with the proposition that shippers who accept a maximum rate determination should oblige themselves to forward the traffic in question by rail.

Shippers have traditionally been entitled to just and reasonable rates from common carriers without regard to the presence or absence of competition. Where effective and controlling competition caused a reduction of rail rates below the level that might be adjudged to correspond with the maximum of reasonableness, they had no occasion for complaint on this ground. The proposition that competitive reductions in rail rates designed to meet competitive forces outside the control of the railways may be tied to an undertaking by shippers to forward traffic by rail is sound and is one of the important advantages of the Canadian agreed charge system. But it is far from equally clear that a shipper should be required to commit himself to the movement of his traffic by rail as a condition for securing a reasonable maximum rate in the place of one which exceeds the standard. If the right to a determination is at the shipper's option and if no showing of the absence of effective competition is required of him, the acceptance of a captive status becomes more reasonable, although certainly a major departure from previous concepts of shipper status relationship to common carriers of any type.

The full force of the proposition that the shippers of Canada are to be deprived in the future of any standard for the lawfulness of rates is made apparent by Section 336 (7). For it there appears that no matter how high, no

matter how unreasonable a previously existing rate, the making available of a rate which corresponds with the formula maximum provided in the bill constitutes consideration in contract by the railway which entitles the railway to liquidating damages in the event the shipper forwards traffic by another means. Even in the dual contract rate system provided by ocean shipping conferences which, in other respects, resembles the plan here proposed, there is customarily a fixed relationship between the contract rates and the regular tariff rates and the contract rates are voluntarily offered by the conference lines in an effort to tie business to their services. They are, in effect, a reaction to competitive forces either actual or latent and the mere fact they are offered indicates that shippers are not without a competitive alternative as respects at least some part of their ocean traffic over the specific trade routes to which they individually apply. It may be noticed, further, that these requirements are to be enforced against those shippers who have minimum bargaining power in relation to the railroads. No like requirements run against shippers whose traffic moves over competitive routes except as they may voluntarily participate in agreed charges. So far as I am aware, this proposed treatment of traffic moving under maximum rates determined by the public authority is quite without precedent.

All of which is respectfully submitted.



## APPENDIX A-43

Submission

of

GEORGE H. BORTS

on behalf of

THE PROVINCES OF MANITOBA, ALBERTA, AND  
THE MARITIMES TRANSPORTATION COMMISSION  
REPRESENTING THE PROVINCES OF NOVA SCOTIA,  
NEW BRUNSWICK, PRINCE EDWARD ISLAND AND  
NEWFOUNDLAND

to

THE STANDING COMMITTEE

on

TRANSPORT AND COMMUNICATIONS

Regarding Bill C-231

November 24, 1966

The testimony will cover Sections 336 and 387. Section 336 deals with maximum rate regulation for captive shippers, with the definition of captivity, and with the rate formulae to be used for captive shippers. Section 387 covers methods of cost finding and cost computation to be used by the Commission in pursuing the purposes of the Act.

*Section 336*

The concept of maximum rate regulation was suggested in the report of the MacPherson Royal Commission on Transportation. It was designed as a substitute for the traditional regulatory protection against monopolistic rail charges. The report recommended that the Canadian railways be substantially freed from regulation and allowed to set rates on a large body of traffic which over time had become competitive. It argued that competition from truckers had provided Canadian shippers with effective alternatives to railways as a means of transporting their commodities. The railways wished to be free of the regulatory barrier placed in the way of more effective competition with competing modes. This regulatory barrier took two forms. One was a bureaucratic delay in approval of rate changes. Rate changes could be suspended and lengthy hearings held on the complaints of affected parties. Second, the railways were prevented by statute from engaging in rate making which was either unjust, unfair or discriminatory. To some extent, these restrictions on competitive rail rate making had been bypassed through the agreed charges negotiated with certain shippers. Nevertheless, the railways did not have complete freedom of rate making. The Royal Commission was apparently convinced that there were profitable opportunities for carrying traffic which were closed to rail so long as rail rates must be approved by regulatory process, and interested parties could

intercede through the traditional procedures of the Board. The Royal Commission Report recommended that the railways be given much greater freedom in pricing.

The Royal Commission recognized, however, that there was a substantial category of traffic and of shippers who would be left stranded by the removal of the traditional regulatory protections against railway price discrimination. This category of shippers did not enjoy effective alternative modes of transportation. They were, at the time of the report, subject to higher transport charges and higher markups over variable cost relative to what they might have enjoyed, had alternatives been available. Furthermore, these shippers feared that rail rates would increase upon the termination of traditional regulatory protections against unjust and discriminatory rates. The Royal Commission recommended that a system of maximum rate regulation be introduced in order to protect this class of shippers from excessive rates which would force them to make an undue contribution to the overhead of the railway system. Unfortunately, no attempt was made in the Report to identify the characteristics of the shippers who might become captive. We do find on page 100 of Volume II the intriguing hint that two classes of shippers have failed to complain about excessive rates or undue burdens. These are the shippers of heavy loading commodities who ship in loads less than 15 tons, in effect LCL shippers, and the shippers of lightly loading goods who ship in loads less than 15 tons. Other than this hint, we must use other information outside the Report to suggest who these shippers might be. It has been suggested, for example, that they consist of those shippers who were identified under the Freight Rates Reduction Act, namely the shippers of class rate and non-competitive commodity rate traffic. This, however, is merely an inference from the fact that shippers of such traffic are already paying very high rates relative to the shippers who enjoy either agreed charge rates or competitive commodity rates. A second unfortunate aspect of the Royal Commission Report was its failure to identify the actual markup over variable costs which such a figure comes from, or why the Commission selected a markup twice as rate, the report uses 150 per cent, over variable costs. We are never told where such a figure comes from, or why the Commission selected a markup twice as high as the average markup for all CPR freight traffic.

#### *A. Definition of Captivity.*

Under the Section 336 of the Bill C-231, a shipper of goods may request the Commission to determine the probable range within which a fixed rate would fall should the shipper choose to apply for captivity. After being informed by the Commission of the probable rate, the shipper may apply to the Commission for captivity and the Commission, after investigation, may fix a rate which is determined by the rate formula. The weakness of this provision is that there is only a vague criterion specified by which the Commission may decide whether a shipper is worthy of captive treatment. This vague definition is provided in the opening words of the section, where it is said that:

"a shipper of goods for which in respect to those goods there is no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or combination of rail carriers may, etc."

It is very difficult to specify what is meant by the absence of alternative, effective and competitive service. From one point of view, there is very little

competitive service in Canada, where there are only two railway systems to begin with, and where truck lines are also owned by these very same railway systems. While there may be a wide range of services which are technologically effective they may not be economically competitive. On the other hand, we know that the rails have lost traffic to the trucks so we know there are shippers with alternatives. The difficulty is how to define the absence of such alternatives. This opening section 336 (1) is faulty in not indicating what constitutes the absence of alternative service. I would find it very difficult to specify what is meant by the absence of alternative service for the purposes of defining captivity. The traffic which is truly captive in the economic sense consists of heavy loading commodities which find the railroads more advantageous than truck because of the present technology and cost of rail and truck operations. This represents such a broad category of traffic, however, that it is probably best not to tie up the time of a commission staff in deciding who is and who isn't economically captive. I strongly suggest, therefore, that the best way to define captivity is through self-declaration by the shipper. Any shipper should be free to ask the Commission to specify a rate which he would enjoy if he should declare himself captive. It would be up to the shipper to decide for himself whether he wished to be a captive or not. I shall later point out that it may be possible to do away entirely with the concept of captivity.

#### B. Cost formulae.

In determining the rate to be charged captive shippers, the Commission is instructed to fix a rate equal to the variable cost of the carriage of the goods and an amount equal to 150 per cent of the variable cost. In addition the Commission is told

(a) To compute the cost of capital by using the cost of capital approved by the Commission as proper for the Canadian Pacific Railway Company; (b) To calculate the cost of carriage of the goods concerned on the basis of carloads of 30,000 pounds in standard railway equipment; (c) For shipments under 30,000 pounds the shipper has the alternative of either using the prevailing rate under the tariffs of the company for goods of that type, or assuming the charges for a shipment of 30,000 pounds at the fixed rate; (d) The shipper may deduct a slight amount from the cost if the carload weight of a single shipment is 50,000 pounds or more. He may deduct from the fixed rate an amount equal to one-half the amount of the reduction in the variable cost of the shipment of the goods concerned below the amount of the variable cost with reference to which the fixed rate was established. Rates under this item are established for minimum carload weights based on units of 20,000 added to 30,000 pounds and between any two minimum carload weights, the rate shall be the rate for the lower of the minimum weights.

The effect of this very complicated cost formula is to provide a markup of 150 per cent over variable cost for shipments of 30,000 pounds. For shipments of larger than 30,000 pounds, the peculiar provisions of the formula pile markup upon markup, because the economies of heavy loading traffic are not reflected in the artificial variable cost concept to be calculated. In an earlier submission to the Department of Transport by the eight provinces, an analysis of the cost formula revealed that the markup over variable cost varied from 150 per cent of variable cost on a 30,000 pound load up to a markup of 600 per cent of variable



cost for a shipment of 140,000 pounds. The percentage markup over variable cost rose continually as carload weight rose because of a the failure of the rate formula to take account of the economies of heavier loads. The rate formula thus resulted in a relationship between rate per hundred pounds and weight of load which declined far less rapidly than the actual relationship in Canadian freight experience between the rate per ton and the load per car. There is no question that the rate formula provides less and less protection to the potentially captive as the weight of the shipment increases, and least protection to those shippers who are the natural captives of rail service. If there is any category of shipper who will attempt to seek protection under the cost formula, his loads will be in the 30,000 to 50,000 pound range. Of this more will be said below. A second anomaly of the rate formula as it is stated in the bill is the requirement that variable cost includes a rate of return on capital used to provide transportation service. The economist's notion of long run variable cost includes the rate of return necessary to attract capital into a competitive industry. The Royal Commission spoke of long run variable costs when it suggested the cost formula, yet it never indicated whether variable cost was to include the cost of money, namely the rate of return on capital. On the surface, it would seem absurd to compute a long run variable cost figure which includes the cost of money *and then add 150 per cent over on top of it*. I strongly urge the Committee to make this clear in writing this section.

My own recommendations will be spelled out below.

I shall now examine the effects which the rate formula is likely to have on various classifications of traffic. It has been very difficult to answer this question precisely, because the railways have not cooperated in providing cost information relevant to the issue of the effects of the cost formula. For this reason, we have had to rely on cost data which are suggestive but which are certainly not conclusive. The procedure we have followed is as follows: We have taken the cost formulae used by the Royal Commission in Volume 3 of its Report. We have derived cost factors related to the output units. The cost factors were then used to derive system average costs. The system average costs were then used to construct a scale for the Canadian Pacific Railway showing the system average variable cost including the cost of money by tonnage block and by mileage block. This scale of costs was used as the basis for constructing the rates which would be charged under the formula for various types of traffic. To the extent that the commodity and the traffic require special handling or special equipment, the costs will of course not be accurate. They are, nevertheless, highly suggestive for the average of all traffic carried by the Canadian Pacific Railway. We analyzed the waybill analysis of carload traffic for 1965. This information is contained in a report of the Board of Transport Commissioners. For each of forty tonnage-mileage blocks, we selected the commodity having the highest revenue per ton and the lowest revenue per ton. The commodities having the highest revenue per ton were collected in a group of traffic called high-rated traffic. The commodities having the lowest revenue per ton were collected in a group of traffic called low-rated traffic. For each type of commodity we calculated the rate which would be set under the cost formula and compared the formula rate with the actual revenue per ton which the traffic was generating. In this way, it was possible to suggest the effect of the rate formula with regard to different categories of traffic. If all shippers were free to declare themselves captive, it

would then be possible to say whether the rate formula tended to favor one class of shippers over another. The results of the calculations are shown in Table 1. On the basis of the calculations performed, it is possible to draw the following conclusions: None of the traffic referred to as low-rated traffic would find any inducement to seek captivity. Using the rate formula employed in the Bill, the ratio of the formula maximum rate to the actual rate varied from 115.6 per cent to 2,897 per cent for the low-rated traffic. The story was somewhat different for the high-rated traffic. Here we discovered that there were categories of high-rated traffic which might very well have an inducement to seek captivity under the Bill. These consist of high-rated traffic in the tonnage categories from 15 tons up to 35 tons. That is to say, in loads from 15 tons up to 35 tons, it appears as if the maximum rate under the Bill would on the average be lower than the actual rates being charged by the railways. Here is an area where shippers do have an opportunity to get some kind of rate reduction compared to what they are presently paying. Above 35 tons, or 70,000 pounds, the bias of the rate formula against heavy loads begins to operate and there is no advantage in any tonnage category above 35 tons for a shipper to seek captivity.

What about distance discrimination? Is there any indication that long haul shippers are favored or prejudiced as opposed to short haul shippers within the context of the Bill? The answer is no. There appears to be no discrimination either for or against the long haul shipper within the rate formula. This inference is made by examination of Table 1. In the high-rated traffic there is no consistent relation between length of haul and the ratio of Formula rate to actual revenue.

We may conclude, then, that the rate formula provides some relief to the shippers of high-rated commodities whose loads fall short of 35 tons. This raises a question whether the rate formula is providing the protection it was designed to provide in terms of the original recommendations of the Royal Commission. The traffic which is truly captive in the economic sense consists of heavy loading commodities who find the railway more advantageous than truck alternatives because of the present technology and cost of rail operations. Because of the biases present in the rate formula, shippers of such commodities can find no relief. Not only can they find no rate reductions in the Bill, but the railways will be free if they choose to raise the rates which such shippers presently bear. In the absence of realistic service alternatives, only the ability of the shippers to pass on rate increases to the ultimate consumer will determine whether prospective rate increases on such shippers will result in increased rail revenue or simply a destruction of traffic.

The class of shipper which is benefited by the Bill has been facetiously referred to as the shipper of empty boxes. Because of his relatively light loads it is conceivable that he already has truck competition as an alternative to railway service. Clearly these shippers may not need relief from burdensome rail charges, and as I indicated earlier, did not complain about rail rates.

### *C. Recommendations on Section 336.*

In view of the present unsatisfactory effect which the cost formula has on charges, it is necessary to recommend a number of alternatives for your consideration.

1. The cost formula and the notion of a captive shipper could be struck completely from the Bill. It would then be necessary to rewrite into the Bill the traditional legal protections against unjust and discriminatory rates. A shipper would then go through the traditional regulatory procedures in order to protect himself against excessive markups over cost and against rates which put him at a disadvantage against competing shippers. In view of the desire of the Royal Commission to free the railways to cut rates for the purpose of attracting greater traffic, this alternative would push the railway system toward more uniform markups over variable cost, although the markups would not necessarily be equalized. Nevertheless, all rates would have to be cut, to avoid charges of discrimination. From an economic point of view,

TABLE 1  
RATIO OF MAXIMUM RATE TO ACTUAL REVENUE<sup>a</sup> PER TON,  
HIGH-RATED AND LOW-RATED TRAFFIC

High-Rated Traffic				
Miles	Tons			
	0-19.9	20-34.9	35-49.9	50 and Up
200.....	85.0	94.5	150.1	243.0
400.....	45.2	80.2	172.1	200.0
600.....	120.5	107.0	165.4	148.9
800.....	87.1	78.0	150.6	155.1
1,000.....	102.9	83.4	175.4	85.6
1,400.....	159.3	85.5	113.9	199.0
1,800.....	74.2	94.1	140.8	242.7
2,200.....	144.9	67.7	133.3	151.1
2,600.....	74.3	83.7	284.2	235.4
over 2,600.....	141.8	116.3	169.1	201.3
Low-Rated Traffic				
200.....	400.0	521.6	1,357.0	2,897.1
400.....	343.4	487.2	451.8	413.2
600.....	388.4	281.3	344.5	525.2
800.....	249.6	275.6	453.4	479.4
1,000.....	269.7	253.7	244.9	791.3
1,400.....	275.1	299.5	315.4	501.0
1,800.....	157.8	258.6	140.4	475.1
2,200.....	166.8	218.4	252.0	393.2
2,600.....	262.6	255.8	330.2	335.6
over 2,600.....	115.6	257.8	360.9	312.4

this is an attractive solution, since economic efficiency implies that all buyers of a service are charged either the marginal cost of the service, or marginal cost plus a uniform markup. A second and obvious advantage of a cost based rate structure is that all shippers bear a uniform per cent overhead, and there is no price discrimination. This move toward a cost-based rate structure would be desirable, although it is not the intent of the Bill.

2. A second possibility is to maintain the concept of self-declaration of captivity and introduce a better cost formula. Under these circumstances, I would recommend a cost formula which specified a percentage markup over the variable cost of carrying the traffic at its actual weight. Note that I would use the actual weight of the traffic not the fictional 30,000 pounds shipment. The percent-



age markup over variable cost would then relate the desired revenues of the railways to their actual variable costs. Whether the right markup is 50 per cent, or 150 per cent I don't know. It would depend on the level of earnings the Commission specified for the railways. As part of this second alternative, one might also rewrite into the bill the non-discriminatory rate provisions, and treat these as an additional protection to the captive shipper over and above the protection which he is already receiving from the maximum rate. These provisions would assure the captive shipper a percentage markup over variable cost which did not place him at a competitive disadvantage with traffic or similar competitive circumstances. It would be a matter for regulatory procedure to define in each case, but it would nevertheless provide captive shippers with more protection than they are likely to receive under the present bill.

3. A third alternative, and one which is very appealing because of its simplicity, would be to do away with the rate formula and the notion of captivity entirely, and simply place a ceiling on all markups. That is to say, simply write in to the statute the provision that the present rate-structure relationship between railway rates and variable costs provides a maximum ceiling which railways cannot exceed. This rule would free the railways to carry out all of the rate cutting which they claim they need in order to attract new traffic. At the same time the ceiling markup on variable cost would present a maximum burden on existing shippers which could never be exceeded. Over time as competition tended to pervade the transportation sector more and more, these ceilings would be left behind, and the railways would cut the percentage markup over variable cost in an attempt to attract traffic. An additional benefit of this ceiling is that it frees the railways to cut rates where they please to attract traffic, and to pass on the benefits of technological change in cost savings where they please. The only thing we want to make sure is that the ceiling rate of markup over variable cost is never exceeded. I might add, in addition, that the only future circumstance in which the railways might wish to exceed these ceilings is if certain classes of traffic became less competitive rather than more competitive through future technological changes in railways. My own feeling is that this is not a very great danger.

To summarize this third proposal, the protection which the shipper desires through captivity could just as easily be provided by specifying a ceiling on the markup over variable cost. This protection will not lead to any rate cuts, but it would assure against rate increases resulting from an attempt to make captives bear undue burdens. This provision would not freeze the rate structure either, because increases in variable cost would be passed on to shippers after investigation of their validity. With a ceiling on markups, the railways would not have to apply to the Board for rate increases in the case of increases in variable cost. A shipper could, however, apply to have an announced rate increase suspended prior to an investigation of the railway's claim that its variable cost had increased.

The maintenance of ceiling markups could be combined with the provision of non-discriminatory privileges for certain classes of shippers. Here one might reinstate the notion of captivity for those shippers who wished non-discriminatory provisions applied to their markups over variable cost. One might then regard captivity as the *quid pro quo* in the case of the shipper who wishes the same markup on variable cost as his competition.

One general point must be made in concluding these recommendations. The Bill as it now reads conveys the distinct impression of an overwhelming concern with the revenue position of the railways. There should be an equal concern for the well being of users of transportation, and for an efficient use of transportation resources.

Railway rates like excise taxes on specific commodities place a gap between the price paid by the consumer and that received by the producer. For this reason railway rates may have a controlling affect on the regional and industrial distribution of economic activity. To the extent that railway rates do not reflect long run marginal costs, they are an attempt to recover from particular markets the unallocated burden of rail costs. This unallocated burden of rail costs is truly independent of particular services, and there is no economic justification for placing it on one class of shipper as opposed to another. In fact, rail rates are structured to place a disproportionate share of the burden on shippers with the fewest service alternatives. The method of recovering the burden is therefore a matter of tax policy and is inconsistent with the desire to have an efficient allocation of resources. The proposed legislation is designed to ensure that there is no loss of contribution to burden by captive shippers as a group. There is no logic to this position; taxes on one group are being used to pay a burden which should be borne either by all shippers or by the country as a whole. I believe it is a mistake to use the loss of contribution to burden as a criterion for rejecting proposals to protect the captive shipper. The proper criterion to be employed is to ask whether such proposals will improve the regional and industrial distribution of economic activity.

### Section 387

Section 387 attempts to specify guidelines to be used by the Commission in computing costs for the purposes of the act.

The terms of this section are imprecise and inadequate to protect the interests of various shipper groups, consumer groups and other parties, and I shall recommend changes below.

387A (1). In computing costs, the Commission is instructed to include necessary allowances for depreciation and cost of money. In the latter case, cost of money expended includes money which was borrowed and money which was not borrowed.

Confusion arises for the following reasons:

Section 387A (1) specifies that the terms of the section apply to the purposes specified in Sections 314A to 314J, 329, 334, 387A and B. Section 336 is not mentioned. In looking at Section 336, we find no instructions concerning the inclusion of allowances for depreciation in computing variable cost. Further, the instructions for computing costs of capital in 336 simply state that the Commission is to use the costs of capital approved by the Commission as proper for the Canadian Pacific Railway Co.

It is not clear why different instructions are needed to compute variable cost in Section 336, compared to the instructions needed to compute variable cost for the purposes of the other sections.

I recommend that this section be clarified to explain the difference in treatment.



387A (2). The Commission is instructed to include in the computed costs of any particular undertaking or operation of the company those costs of the company which are in whole or in part reasonably attributable to that particular undertaking or operation. The same rule is to apply in computing the costs of future undertakings or operations.

This section is confusing and possibly mischievous in its impact. The concept of variable cost is sufficiently well defined so that it is not necessary to add modifying provisions which attempt to bring in "reasonably attributable" costs which do not, in fact, vary with particular items of traffic. The danger of this section is that it opens up all of the complications of adding burdens, overheads, system deficits and so on, if the Commission has a mind to entertain such possibilities. It would be far better to delete Section 387A (2) entirely, and substitute a simple instruction that variable costs consist of the savings in total cost from a reduction in service output, and that the revenue or loss on any particular service should be determined by comparing revenues with long-run variable costs.

387B. This section gives the Commission authority to define the items and factors relevant for the computation of cost. It also sets up an appeals procedure to handle written submissions to the Commission with respect to amended regulations; and to set up hearings with respect to proposals for changes in regulations by persons outside the Commission. The section is faulty in that it provides inadequate protection to interested parties. Section 387B(2) indicates that written submissions will be entertained when the Commission proposes amendments to cost definitions. The Commission may hold hearings, but it is not obliged to do so. Nor is it obliged to permit interested parties to interrogate Commission staff.

When changes in cost regulations are proposed by outside parties, the Commission may hold hearings. The hearings procedure will, however, be limited in its effectiveness by provisions of Section 387C, which are discussed below.

387C. Section 387C proposes to protect the confidential nature of cost data obtained from a railway company. Thus, the hearing procedure would be hampered by the inability of interested parties to obtain information from the railways affecting questions of cost. It is not clear how a fair and impartial hearing can be held when a chief party to the hearings, namely the railways, can withhold cost information from interested parties outside the Commission. This issue of confidentiality becomes of immediate importance whenever an interested party before the Commission has a complaint involving cost. Thus cost enters into considerations of abandonment of uneconomic branch lines, the determination of deficits in the grain traffic, and the determination of compensatory rate levels. In each case, interested parties must be able to examine Commission staff and examine statements and testimony presented by other interested parties. Failing such procedure, the protection of the public is denied.

Much has been made in the past of the need to protect the confidential nature of operating cost data of the railways. The railways have argued that public knowledge of such information would place them at a competitive disadvantage with respect to other modes, namely truckers. The competitive position of the railways vis-à-vis the trucks is supposedly defended by a general ignorance of rail variable costs. The railways feel that if the trucks had such knowledge, they would know which areas of rail traffic are vulnerable to rate



competition. Following this argument, the trucks would speedily act to cut rates on such traffic and drive the rail service out.

I find this to be a ludicrous and colored picture of competition in the marketplace. The rails over time have lost high-rate traffic to the trucks because of the constant pressure of competition pushing both shippers and truckers to find those commodities and services where truck can displace rail. It has not been necessary for these parties to know rail costs. All that is needed is a truck rate and truck service which is better than the rail rate and rail service. That a more perfect knowledge of rail costs would cause additional loss of traffic to the trucks is a hypothetical statement without empirical foundation.

It will not be possible to carry out the costing activities required in this act if rail costs are to be kept confidential. For the costing activities required in this act will necessitate the determination of system average cost scales for the railways, as well as the determination of long-run variable cost for particular items of traffic and branch lines. How can the Commission make such information publicly available without revealing rail cost information? How can it carry out its mandate without making such information publicly available? Is the Commission to operate in secret?

I would strongly recommend therefore that Sections 387B and C be modified as follows:

1. The Commission should be instructed to carry out costing procedures necessary to satisfy the requirements of Sections 314, 329, 334, and 336. In addition, the Commission should be instructed to determine the profitability of any undertaking by comparing the revenues from that undertaking with the long-run variable costs.

2. Such cost information is to be made freely available to all interested parties in matters relating to Commission hearings under Sections 314, 329, 334, and 336.

3. Interested parties will have the right to examine material prepared by Commission staff and examine material presented by other interested parties.

4. Section 387C should be deleted.

All of which is respectfully submitted,

TABLE OF MAXIMUM RATES

Development of Maximum Rates and Markups over actual variable cost in Bill C-231.  
Canadian Pacific Railway Costs 1953, as derived from Royal Commission Report.  
(500 mile length of haul)

Weight	1	2	3	4	5
	Variable Cost (Including cost of money)	Reduction in variable cost from 15 ton load	Variable cost (15 tons) + 150%	Maximum Rate (Col. 3—one half Col. 2)	% Markup over actual Variable Cost
30,000 lbs.....	50.2¢	—	\$1.26	\$1.26	150%
50,000 lbs.....	34.1¢	16.1¢	1.26	1.18	246%
70,000 lbs.....	27.2¢	23.0¢	1.26	1.14	319%
90,000 lbs.....	23.4¢	26.8¢	1.26	1.12	379%
110,000 lbs.....	21.1¢	29.1¢	1.26	1.11	426%
130,000 lbs.....	19.4¢	30.8¢	1.26	1.10	467%

G. H. BORTS.

HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS

No. 41

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THURSDAY, NOVEMBER 24, 1966

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Respecting

BILL C-231

An Act to define and implement a national transportation policy for  
Canada, to amend the Railway Act and other Acts in consequence  
thereof and to enact other consequential provisions.

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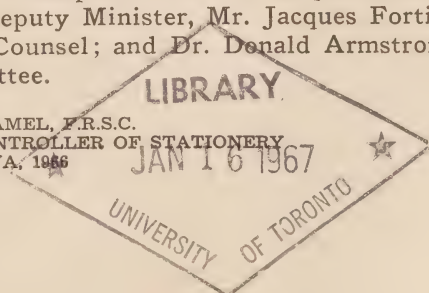
INCLUDING THIRTEENTH REPORT TO THE HOUSE

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WITNESSES:

Hon. J. W. Pickersgill, Minister of Transport. From the *Department of Transport*: Mr. J. R. Baldwin, Deputy Minister, Mr. Jacques Fortier, Director of Legal Services and Counsel; and Dr. Donald Armstrong, Economic Advisor to the Committee.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1966





STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard

and

Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Deachman,  
Mr. Fawcett,  
Mr. Groos,

Mr. Horner (*Acadia*),  
Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. Legault,  
Mr. MacEwan,  
Mr. McWilliam,  
Mr. Nowlan,

Mr. O'Keefe,  
Mr. Olson,  
Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

ORDER OF REFERENCE

THURSDAY, September 8, 1966.

*Ordered*,—That Bill C-231, An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and enact other consequential provisions be referred to the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House.*





## REPORT TO THE HOUSE

The Standing Committee on Transport and Communications has the honour to present its

### THIRTEENTH REPORT

Bill C-231, An Act to define and implement a national transportation policy for Canada, to amend the Railway Act and other Acts in consequence thereof and to enact other consequential provisions was referred to your Committee on Thursday, September 8, 1966.

Because your Committee did not have the power to sit while the House was in Recess, the first meeting to consider Bill C-231 was delayed until Thursday, October 6, 1966. Since that date your Committee has held thirty-three (33) meetings, has heard evidence from seventy-three (73) witnesses and has received and considered thirty-six (36) briefs.

Your Committee has agreed to report Bill C-231 with the following amendments:

#### *Clause 1*

Strike out lines 4 to 11, inclusive, on page 1 thereof and substitute therefor the following:

1. It is hereby declared that an economic and efficient transportation system making the best use of all available modes of transportation at the lowest total cost is essential to protect the interests of the users of transportation and to maintain the economic well-being and growth of Canada; and that these objectives are most likely to be achieved when all modes of transport are able to compete under conditions ensuring that,

#### *Clause 3*

Strike out lines 15 to 18, inclusive, on page 2 thereof and substitute therefor the following:

Solely of oil and gas, or either

Strike out lines 20 to 23, inclusive, on page 2 thereof and substitute therefor the following:

- (d) "motor vehicle undertaking" means a work or undertaking for the transport of passengers or goods by any vehicle, machine, tractor, trailer or semi-trailer, or any combination thereof, propelled or drawn by mechanical power and capable of use upon a highway;
- (e) "oil" and "gas" means oil and gas as these substances are defined in section 2 of the *National Energy Board Act*.

#### *Clause 4*

Strike out line 31 on page 2 thereof and substitute therefor the following:

applies and all other transport by water to which the legislative authority of the Parliament of Canada extends;

Strike out line 36 on page 2 thereof and substitute therefor the following:

- (e) transport for hire or reward by a motor.

*Clause 7*

Strike out line 21 on page 4 thereof and substitute therefor the following:  
under section 15.

Add thereto, immediately after subclause (5) of Clause 7 thereof, the following subclause:

(6) At all proceedings of the Commission the President, when present, shall preside and the vice-president who qualifies under subsection (2), when present, shall preside in the absence of the President; and the opinion of the vice-president who qualifies under subsection (2) upon any question arising that in the opinion of the Commissioners is a question of law shall prevail except that if the President is himself a barrister or advocate of at least ten years' standing at the bar of any province of Canada, the opinion of the President shall prevail upon any such question of law arising when he is presiding.

*Clause 9*

Strike out Clause 9 thereof and substitute therefor the following:

9. (1) there shall be a Secretary of the Commission who shall be appointed by the Governor in Council to hold office during pleasure.

(2) in the absence of the Secretary from illness or any other cause, the Commission may appoint from its staff an acting secretary, who shall thereupon act in the place of the Secretary and exercise his powers.

*Clause 11*

Delete.

*Original Clause 12*

Amend by re-numbering as Clause 11.

*Original Clause 13, 14 and 15*

Amend by re-numbering 12, 13 and 14.

*Original Clause 16*

Amend by re-numbering Clause 15 and by striking out lines 41 and 42 on page 6 thereof and substitute therefor the following:

(b) undertake studies and research into the economic aspects of all modes of transport within, into or from Canada;

Strike out line 45 on page 6 thereof and substitute therefor the following:  
transport within, into and from Canada and upon the measures

Strike out paragraph (g) on page 7 thereof and substitute therefor the following:

(g) establish general economic standards and criteria to be used in the determination of federal investment in equipment and facilities as between various modes of transport and within individual modes of transport and in the determination of desirable financial returns therefrom;

Strike out line 17 on page 8 thereof and substitute therefor the following:  
water within, into and from Canada;

Add thereto, immediately after line 35 on page 8 thereof, the following:

(4) In carrying out its duties and functions under this section, the Commission may consult with persons, organizations and authorities that in the opinion of the Commission are in a position to assist the Commission in formulating and recommending policy and the Commission may appoint and consult with committees being representative of such persons, organizations and authorities.

(5) The Commission may delegate, in whole or in part, to any other body or authority subject to the legislative authority of the Parliament of Canada any of the powers or duties of the Commission in respect of safety in the operation of commodity pipelines and such delegated body or authority may exercise and shall perform the powers or duties so delegated.

#### New Clause 16

Insert new Clause 16 as follows:

16. (1) In this section a "carrier" means any person engaged for hire or reward in transport, to which the legislative authority of the Parliament of Canada extends, by railway, water, aircraft, motor vehicle undertaking or commodity pipeline.

(2) Where a person has reason to believe

- (a) that any act or omission of a carrier or of any two or more carriers, or
- (b) that the effect of any rate established by a carrier or carriers pursuant to this Act of the *Railway Act* after the commencement of this Act,

may prejudicially affect the public interest in respect of tolls for or conditions of the carriage of traffic within, into or from Canada, such person may apply to the Commission for leave to appeal the act, omission or rate, and the Commission shall, if it is satisfied that a *prima facie* case has been made, make such investigation of the act, omission or rate and the effect thereof as in its opinion is warranted.

(3) In conducting an investigation under this section, the Commission shall have regard to all considerations that appear to it to be relevant, including, without limiting the generality of the foregoing,

- (a) whether the tolls or conditions specified for the carriage of traffic under the rate so established are such as to create an unfair disadvantage beyond that which may be deemed to be inherent in the location or volume of the traffic, the scale of operation connected therewith or the type of traffic or service involved; or
- (b) whether control by, or the interests of a carrier in, another form of transportation service, or control of a carrier by, or the interest in the carrier of, a company or person engaged in another form of transportation service may be involved.

(4) If the Commission, after a hearing, finds that the act, omission or rate in respect of which the appeal is made is prejudicial to the public interest, the Commission may, notwithstanding the fixing of any rate pursuant to section 336 of the *Railway Act* but having regard to section 334 of that Act, make an order requiring the carrier to remove the prejudicial feature in the relevant tolls or conditions specified for the carriage of traffic or such other order as in the circumstances it may consider proper or it may report thereon to the Governor in Council for any action that is considered appropriate.



*Clause 17*

Strike out line 5 on page 9 thereof and substitute therefor the following:  
both the President and the vice-president who qualifies under subsection (2) of section 7 preside at all sittings

Strike out subclauses (4) to (6) inclusive, of Clause 17 on page 9 thereof and substitute therefor the following:

(4) Where an order, rule or direction made by a committee of the Commission in respect of a matter related to a particular mode of transport, not being a matter of a specific rate, licence or certificate, is objected to by an operator of another mode of transport on the ground that the order, rule or direction discriminates against or is otherwise unfair to his operations, the Commission shall, otherwise than by that committee of the Commission, review the order, rule or direction, in accordance with such rules of procedure as the Commission may prescribe therefor, and shall confirm, rescind, change, alter or vary the order, rule or direction or rehear the matter thereof.

(5) At any hearing of the Commission for the purpose of making any order or giving any direction, leave, sanction or approval in respect of any matter under the jurisdiction of the Commission, the Commission may, notwithstanding any provision of the *Railway Act*, the *Aeronautics Act*, the *Transport Act*, the *National Energy Board Act* or this Act, permit the representative or agent of any provincial or municipal government or any association or other body representing the interests of shippers or consignees in Canada to appear and be heard before the Commission subject to such rules of procedure as the Commission may prescribe.

(6) Notwithstanding anything in this section, the President and the vice-president who qualifies under subsection (2) of section 7 shall not both sit on any hearing before a committee of the Commission.

*New Clause 18*

Insert new Clause 18 as follows:

18. (1) An applicant, or an intervener on an application to the Commission, for

- (a) a licence under the *Aeronautics Act* to operate a commercial air service;
- (b) a licence under this Act to operate a motor vehicle undertaking;
- (c) a licence under the *Transport Act* to engage in transport by water; or
- (d) a certificate of public convenience and necessity under this Act in respect of a commodity pipeline

may appeal to the Minister from a final decision of the Commission with respect to the application, and the Minister shall thereupon certify his opinion to the Commission and the Commission shall comply therewith.

(2) Where pursuant to any power vested in the Commission by this or any other Act of the Parliament of Canada the Commission suspends, cancels or amends any licence to operate any transportation service or any certificate of public convenience and necessity in respect of a transportation service, the carrier whose licence or certificate has been suspended, cancelled or amended may appeal to the Minister, and the Minister shall thereupon certify his opinion to the Commission and the Commission shall comply therewith.

(3) An appeal to the Minister under this section shall be brought within thirty days of the date of the decision, ruling or order appealed from or within such longer period as the Minister may allow.

(4) The Commission may make rules prescribing the manner in which appeals to the Minister may be made.

*Old Clause 18*

Amend by re-numbering as Clause 19, and by striking out the words "with the approval of the Governor in Council" in lines 42 and 43 on page 9 thereof; and

by striking out subclause (2) of Clause 18 on page 10 thereof and substituting therefor the following:

(2) Where there is a conflict between any regulations made by the Commission under this Act in respect of a particular mode of transport and any regulations made under any other Act in respect of that particular mode of transport, the regulations made under this Act prevail.

*Old Clauses 19 and 20*

Amend by re-numbering as Clauses 20 and 21.

*Old Clause 21*

Amend by re-numbering as Clause 22, and by striking out lines 1 and 2 on page 11 thereof and substituting therefor the following:

22. In this Part

(a) "combined pipeline" means a commodity pipeline through which oil and gas, or either can be moved;

(b) "company" or "commodity pipeline company" means a person

reletter the present paragraph (b) of old Clause 21 on page 11 thereof as paragraph (c) and by striking out the figure "24" in line 13 on page 11 thereof and substitute therefor the figure "25".

*Old Clauses 22 and 23*

Amend by re-numbering as Clauses 23 and 24

*Old Clauses 24, 25, 26, 27 and 28*

Delete and insert new Clauses as follows:

25. (1) Subject to subsection (3) of section 24 and subsection (3) of this section, the Commission may issue a certificate in respect of a commodity pipeline if the Commission is satisfied that the pipeline is and will be required by reason of the present and future public convenience and necessity, and, in considering an application for a certificate, the Commission shall take into account such matters as to it appear to be relevant including, without limiting the generality of the foregoing, the following:

(a) the economic feasibility of the pipeline;

(b) the financial responsibility and financial structure of the applicant, the methods of financing the pipeline and the extent to which Canadians will have an opportunity of participating in the financing, engineering and construction of the pipeline; and

(c) any public interest that in the opinion of the Commission may be affected by the granting or refusing of the application.

(2) Every certificate issued pursuant to this section is subject to the condition that the provisions of this Part and the regulations in force at the date of issue thereof and as subsequently enacted, made or amended, as well as every order made under the authority of this Part, will be complied with.

(3) When an application for a certificate under this Part is made in respect of a combined pipeline,

- (a) the application shall, in accordance with such rules as the Governor in Council may make in that behalf, be heard together by the Commission and the National Energy Board, and a joint report on the application shall be made to the Governor in Council by the Commission and the National Energy Board; and
- (b) the certificate may only be issued with the approval of the Governor in Council and the provisions of section 18 do not apply in respect thereof.

26. (1) A company operating a commodity pipeline, other than a combined pipeline, shall not charge any tolls except tolls specified in a tariff that has been filed with the Commission and is in effect.

(2) A company operating a combined pipeline shall not charge tolls except tolls specified in a tariff that has been approved by and filed with both the Commission and the National Energy Board and is in effect; and the provisions of sections 50 to 59 of the *National Energy Board Act* apply *mutatis mutandis* to the carriage by the combined pipeline of any commodity as if the Commission were referred to in those provisions instead of the National Energy Board.

(3) Subject to subsection (2), the Commission may make orders with respect to all matters relating to traffic, tolls or tariffs of a commodity pipeline company, and may disallow any tariff of tolls, or any portion thereof,

- (a) that the Commission considers to be not compensatory and not justified by the public interest; or
- (b) where there is no alternative, effective and competitive service by a common carrier other than another commodity pipeline or combination of commodity pipeline carriers, that the Commission considers to be a tariff that unduly takes advantage of a monopoly situation favouring commodity pipeline carriers;

and may require the commodity pipeline company, within a prescribed time, to substitute a tariff of tolls satisfactory to the Commission in lieu thereof, or the Commission may prescribe other tariffs in lieu of the tariff or portion thereof so disallowed.

27. (1) The Commission has and shall exercise in respect of a commodity pipeline company and its works and undertakings the like jurisdiction, duties and powers as are vested in or exercisable by the National Energy Board under Parts III and V of the *National Energy Board Act* in respect of pipelines under the jurisdiction of that Board; and to the extent that they are not inconsistent with this Part of this Act, sections 26 to 39, sections 57, 58 and 59 and Part V of the *National Energy Board Act* apply *mutatis mutandis* in respect of a commodity pipeline company and its works and undertakings as if the Commission were referred to in those provisions instead of the National Energy Board.



## (2) Where

- (a) a combined pipeline had been operated as an oil or gas pipeline prior to a certificate being issued under this Act in respect thereof, or
- (b) the quantities of oil and gas, or either, being moved by a combined pipeline in relation to the quantities of other commodities so moved are such as would, in the opinion of the Governor in Council, indicate that the pipeline is being operated as an oil or gas pipeline rather than a commodity pipeline,

the Governor in Council may, by order, transfer the combined pipeline to the jurisdiction of the National Energy Board and during any period in which the order is in force, the *National Energy Board Act* applies *mutatis mutandis* to the combined pipeline, and the certificate in respect thereof issued under this Act shall be deemed to have been issued under that Act in respect of the pipeline.

(3) An order made under subsection (2) may be revoked by the Governor Council at any time on the recommendation of the Commission.

(4) The Commission may, with the approval of the Governor in Council, by order, upon such terms and conditions as it considers advisable, require a company operating a commodity pipeline, according to its powers, without delay and with due care and diligence, to receive, transport and deliver through its pipeline any substance capable of being transmitted therein.

(5) The Commission may, in like manner, make like regulations in respect of commodity pipelines as the National Energy Board may make under section 88 of the *National Energy Board Act*.

(6) Every person who violates a regulation made under subsection (5) is guilty of an offence punishable on summary conviction.

*Old Clause 29*

Amend by re-numbering as Clause 28.

*Old Clause 30*

Delete and insert new Clauses 29 and 30 as follows:

29. While the *Motor Vehicle Transport Act* is in force and notwithstanding section 4 of this Act, this Part applies only to such motor vehicle undertaking or such part thereof as is exempted from the provisions of the *Motor Vehicle Transport Act* under section 5 thereof; and in this Part the expression "motor vehicle undertaking to which this Part applies" means in relation to a part of a motor vehicle undertaking so exempted from the provisions of that Act, the part thereof so exempted.

30. Where a motor vehicle undertaking was in operation immediately before this Part became applicable thereto, the person operating the motor vehicle undertaking is entitled to, and the Commission shall issue to him on his application made within six months from the day that this Part became applicable to the undertaking, a licence under this Part in respect thereof on the same conditions respecting schedules, routes, places of call, carriage of passengers and goods and insurance, herein referred to as the "operative conditions", as were operative in respect of such motor vehicle undertaking immediately before this Part became applicable thereto, but the Commission may insert in the licence such additional conditions, not affecting the operative conditions or relating to the ownership or control of the undertaking, as the Commission deems necessary in the Public interest.

*Clause 32*

Delete Clause 32 on pages 14 and 15 thereof and insert therefor the following:

32. (1) Subject to subsection (2), no person shall operate a motor vehicle undertaking to which this Part applies unless he holds a valid and subsisting licence issued under this Part.

(2) Subsection (1) does not apply to a person who is operating a motor vehicle undertaking immediately before this Part becomes applicable thereto unless such person fails to apply to the Commission within six months thereafter for the issuance of a licence under this Part.

(3) No person shall operate a motor vehicle undertaking to which this Part applies contrary to any of the conditions of the licence issued in respect thereof under this Part.

(4) No person shall offer, grant or give, or solicit, accept or receive any rebate concession or discrimination, in respect of the transportation of any traffic by a motor vehicle undertaking to which this Part applies, whereby any such traffic is, by any device whatsoever, transported at a rate less than that named in the tariffs then in force.

(5) Every person who violates a provision of this section is guilty of an offence and is liable upon summary conviction to a fine not exceeding five thousand dollars or to imprisonment for a term not exceeding one year or to both fine and imprisonment.

*Clause 33*

Strike out line 12 on page 15 thereof and insert therefor the following:

(2) Where the person operating a motor vehicle undertaking to which this Part applies is a member of an association representing persons carrying on like operations, the association may, in accordance with such regulations as the Commission may make in that regard, prepare and file with the Commission a tariff of tolls on behalf of such person.

(3) The Commission may make orders with

*Clause 35*

Strike out line 38 and 39 thereof and insert therefor the following:

35. The Commission may make regulations

Strike out line 26 to 29, inclusive, on page 17 thereof and insert therefor the following:

- prisonment;
- (p) respecting safety and the prevention of injury in the operations of any motor vehicle undertaking and prescribing standards of safety therefor;
- (q) designating persons as examiners to carry out investigations on behalf of the Commission in respect of matters related to the operations of motor vehicle undertakings and providing for the making of reports thereafter and for other matters deemed necessary in connection with such investigations;
- (r) respecting any matter necessary or advisable to carry out effectively the intent and purpose of this Part.

*Clauses 39, 40 and 41*

Strike out Clause 39 thereof and renumber Clause 40 thereof as Clause 39; and

Renumber subclauses (1) and (2) of Clause 41 thereof as Clauses 40 and 41, respectively.

*Clause 42*

Strike out lines 10 to 24, inclusive, on page 21 thereof and substitute therefor the following:

314B. (1) The Commission may, where it deems it necessary to do so, make rules for the handling of applications for the abandonment of branch lines and may by such rules prescribe the periods during which applications shall be filed with and heard by the Commission in respect of any particular branch line or groups of branch lines.

(2) If a company desires to abandon the operation of a branch line, the company shall file an application to abandon the operation of that line with the Commission in accordance with any rules that may have been made by the Commission pursuant to subsection (1); and the Commission shall cause such public notice of the application to be given in the area served by the branch line as the Commission deems reasonable.

Strike out lines 1 to 3, inclusive, on page 22 thereof and substitute therefor the following:

Commission shall cause such public notice of the principal conclusions of the report to be given in the area served by the branch line as the Commission deems reasonable.

Strike out lines 10 to 16, inclusive, on page 22 thereof and substitute therefor the following:

shall, after such hearings, if any, as are required in its opinion to enable all persons who wish to do so to present their views on the abandonment of the branch line and having regard to all matters that to it appear relevant, determine whether the branch line is uneconomic and is likely to continue to be uneconomic and whether the line should be abandoned; but if the Commission finds that in

Strike out paragraph (a) of subsection (2) of section 314C on page 22 thereof and substitute therefor the following:

- (a) may consider together as a group, on dates fixed therefor by the Commission, all applications for abandonment of branch lines that are situated in the same area or adjoining areas as determined by the Commission;

Strike out line 16 on page 23 thereof and substitute therefor the following:  
branch line or any segment thereof should be abandoned, the;

Strike out lines 4 and 5 on page 24 thereof and substitute therefor the following:

- (h) the existing or potential resources of the area served by the branch line, seasonal restrictions on other forms of transportation therein and the probable future transportation needs of the area.



Strike out lines 11 to 15, inclusive, on page 26 thereof and substitute therefor the following:

section 314C the Commission may also make recommendations not directly involving a railway company

- (a) in respect of the orderly handling of traffic remaining to a branch line or any segment thereof for which the Commission has fixed a date for abandonment, or
- (b) in respect of any action deemed desirable by the Commission on any matter directly related to the abandonment of the branch line or any segment thereof,

and

Strike out line 28 on page 26 thereof and substitute therefor the following:

Commission but protecting, so far as it is practicable to do so, information that is by its nature confidential from being made available for use by any other person.

Delete subsection (1) of section 314G on pages 28 and 29 thereof and substitute therefor the following:

314G. (1) Notwithstanding anything in sections 314A to 314F, the Governor in Council may, from time to time, by order,

- (a) designate branch lines that shall not be abandoned within such periods as the Governor in Council may prescribe; and
- (b) designate areas within which branch lines shall not be abandoned within such periods as the Governor in Council may prescribe;

and branch lines so designated or within areas so designated shall not be approved for abandonment within the prescribed periods nor shall an application for the abandonment of any such line be made to the Commission within the prescribed period.

Strike out lines 30 to 42, inclusive, on page 29 thereof and substitute therefor the following:

314I. (1) In this section and section 314J,

- (a) "actual loss" means, in relation to a passenger-train service,
  - (i) the excess, if any, of the costs incurred by the company in carrying passengers by the passenger-train service over
  - (ii) the revenues of the company attributable to the carrying of passengers by the passenger-train service; and
- (b) "passenger-train service" means such train or trains of a company as are capable of carrying passengers and are declared by an order of the Commission, for the purposes of this section and section 314J, to comprise a passenger-train service.

Strike out lines 1 to 13, inclusive, on page 30 thereof and substitute therefor the following:

(3) Concurrently with the filing of the application to discontinue the passenger-train service, the company shall also submit to the Commission a statement of the costs and revenues of the company attributable to the carriage of

passengers by the service in each of such number of consecutive financial years of the company as the Commission may prescribe (hereinafter in this section referred to as the "prescribed accounting years"), and the Commission shall cause such public notice of the application to be given in the area served by the passenger-train service as the Commission deems reasonable.

Strike out lines 26 to 44, inclusive, on page 30 thereof and substitute therefor the following:

(5) If the Commission finds that in its opinion the company, in the operation of the passenger-train service with respect to which an application for discontinuance was made, has incurred actual loss in one or more of the prescribed accounting years including the last year thereof, the Commission shall, after such hearings, if any, as are required in its opinion to enable all persons who wish to do so to present their views on the discontinuance of the passenger-train service, and having regard to all matters that to it appear relevant, determine whether the passenger-train service is uneconomic and is likely to continue to be uneconomic and whether the passenger-train service should be discontinued; but if the Commission finds that in its opinion, the company has incurred no actual loss in the operation of such passenger-train service in the last year of the prescribed accounting years, it shall reject the application without prejudice to any application that may subsequently be made for discontinuance of that service.

Strike out line 23 on page 31 thereof and substitute therefor the following:

(b) not later than one year from the date of the

Strike out lines 48 to 51, inclusive, on page 31 thereof and substitute therefor the following:

(9) The Commission shall cause such public notice of any hearing, finding, determination, order, reconsideration or rejection, made or given in respect of the passenger-train service pursuant to subsection (4), (5), (7) or (8), to be given in the area served by the passenger-train service as the Commission deems reasonable.

Strike out lines 41 to 51, inclusive, on page 32 thereof and substitute therefor the following:

(5) The Commission may, in respect of any such payment, or the total of all such payments in respect of the actual losses of the company attributable to the passenger-train service in earlier years, cause such public notice of such payment or payments to be given in the area served by the passenger-train service as the Commission deems reasonable.

Add thereto, immediately after subsection (7) of section 314J on page 33 thereof, the following:

(8) Subsections (2) to 7 do not apply in respect of a passenger-train service accommodating principally persons who commute between points on the railway of the company providing the service.

(9) Where, by virtue of subsection (8), a claim cannot be made under this section in respect of an uneconomic service, the Commission shall after an investigation certify the actual loss, if any, that in its opinion is attributable to the service and report hereon to the Governor in Council for such action as he deems necessary or desirable to provide assistance in respect of such loss.

(10) Where pursuant to any action taken by the Governor in Council under this section financial assistance is provided a railway company in any years from moneys appropriated by Parliament therefor, the payment to such company of such assistance shall be deemed for the purposes of section 469 to be a payment under this section.

*Clause 44*

Strike out Clause 44 thereof and substitute therefor the following:

44. The heading preceding section 317 and sections 317 and 318 of the said Act are repealed and the following substituted therefor:

317. Notwithstanding section 336, where in the opinion of the Commission there is, in respect of the carriage of goods in less than carload quantities under five thousand pounds to or from any point in Canada, no alternative, effective and competitive service by a common carrier other than a rail carrier or carriers or a combination of rail carriers, the Commission may investigate the tariff of tolls applying to the carriage in those quantities to or from such point in Canada and if the Commission finds that the tariff of tolls of a railway company, or any portions of the tariff, are such as to take undue advantage of a monopoly situation favouring rail carriers in respect of the carriage of such goods or class of goods, the Commission may disallow such tariff of tolls or any portion thereof and may require the railway company to substitute within a specified period of time a tariff of tolls satisfactory to the Commission or it may prescribe other tolls in lieu of any tolls so disallowed.

*Clause 49*

Strike out line 33 on page 36 thereof and substitute therefor the following:  
*of Union of Newfoundland with Canada, and Part IV*

*Clause 50*

Strike out line 19 on page 37 thereof and substitute therefor the following:

(3) Rates on grain and flour moving for export from any point west of Fort William or Armstrong to Churchill over any line of railway of any company that is subject to the jurisdiction of Parliament shall be maintained at the level of rates applying on the 31st day of December, 1966.

(4) Notwithstanding section 3, this section

Strike out line 5 on page 38 thereof and substitute therefor the following:

(b) on grain products other than flour moving for export

Strike out line 43 on page 38 thereof and substitute therefor the following:

deemed for the purposes of sections 314E and 469

Strike out section 329A on pages 39 and 40 thereof and substitute therefor the following:

329A. (1) In this section,

(a) "Eastern port" means any of the ports of Halifax, Saint John, West Saint John and Montreal and any of the ports on the St. Lawrence River to the east of Montreal;

(b) "Eastern rates" means,

(i) in relation to grain, the freight rates applying on the 30th day of November, 1960, to the movement of grain in bulk for export from any inland point to an Eastern port,  
and



(ii) in relation to flour, the freight rates applying on the 30th day of September, 1966, to the movement of flour for export from any inland point to an Eastern port;

(c) "inland point" means,

(i) in relation to grain, any of the railway points along Georgian Bay, along Lake Huron or along any waterways directly or indirectly connecting with Lake Huron and not being farther east than Prescott, but including Prescott, and

(ii) in relation to flour, any point in Canada east of the 84th degree of west longitude;

(d) "flour" means flour milled from grain; and

(e) "grain" means the commodities referred to in paragraph (6) of Order No. 121416 of the Board of Transport Commissioners for Canada dated the 18th day of July, 1966.

(2) For the purpose of encouraging the continued use of the Eastern ports for the export of grain and flour,

(a) rates for grain moving in bulk for export to any Eastern port from any inland point over any line of a railway company subject to the jurisdiction of Parliament shall be maintained at the level of rates applying on the 30th day of November, 1960, to the movement of such grain to Eastern ports; and

(b) rates on flour moving for export to an Eastern port from any inland point over any line of a railway company subject to the jurisdiction of Parliament shall be maintained at the level of rates applying on the 30th day of September, 1966, to the movement of such flour to Eastern ports.

(3) The Commission shall from time to time determine in respect of

(a) the movement of grain in bulk for export, and

(b) the movement of flour for export,

by railway to an Eastern port from an inland point a level of rates consistent with section 334 and shall cause such rates to be published in the *Canada Gazette*.

(4) The Governor in Council may, on the recommendation of the Commission, authorize the Minister of Finance to pay out of the Consolidated Revenue Fund to a railway company under the jurisdiction of Parliament that carries at Eastern rates grain moving in bulk for export to an Eastern port from an inland point, or flour moving for export from an inland point to an Eastern port, when the Eastern rates for such grain or flour, as the case may be, are less than the rates determined and published by the Commission under subsection (3), an amount equal to the difference between

(a) the total amount received by the company in respect of that year for the carriage of such grain or flour and

(b) the total amount that the company would have received in respect of that year had the grain or flour been carried at the rates determined and published by the Commission under subsection (3) instead of at the Eastern rates.

(5) Until such time as the Commission determines and publishes a level of rates under subsection (3),

- (a) the railway proportions of rates for the movement of grain in bulk for export from an inland point to an Eastern port that have been filed by a railway company with the Board of Transport Commissioners for Canada in accordance with paragraph 2 of Order No. 103860 of that Board dated February 23rd, 1961, and that have been approved by that Board shall be deemed to be the rates determined and published by the Commission under subsection (3); and
- (b) the rates applying on the 30th day of September, 1966, for the movement of flour for export from an inland point to an Eastern port shall be deemed to be the rates determined and published by the Commission under subsection (3).

#### Clause 53

Strike out the word "Board" in line 5 on page 41 thereof and substitute therefor the word "Commission".

Strike out line 36 on page 41 thereof and substitute therefor the following:

335. (1) A carload rate that is for a movement between

Strike out subsection (2) of section 335 on page 42 of the Bill and substitute therefor the following:

(2) A commodity rate (other than a competitive rate) that was in effect on the 9th day of October, 1966, for a movement of coal or coke between points in Canada one of which is, or both of which are, within the "select territory" as defined by sections 2, 7 and 12 of the *Maritime Freight Rates Act*, shall be the rate in effect therefor after the coming into force of this section and shall continue to be the rate therefor notwithstanding anything in this Act or any other Act.

(3) Subsections (1) and (2) shall be in force during the two years after the coming into force thereof and expire at the end of that period.

Strike out line 28 on page 43 thereof and substitute therefor the following:

force, all shipments of the goods concerned except such shipments as the Commission may from time to time authorize to be shipped for experimental purposes by another mode of transport;

and

Strike out line 22 on page 44 thereof and substitute therefor the following:  
directions made by the Commission.

Strike out line 29 on page 46 thereof and substitute therefor the following:

(15) Subsection (11) expires two years

Strike out the words "five years" in line 35 on page 46 thereof and substitute therefor the words "four years".

#### Clauses 63 and 64

Strike out Clauses 63 and 64 on page 50 thereof and substitute therefor the following:

63. Subsection (1) of section 362 of the said Act is repealed and the following substituted therefor:

362. (1) If any goods remain in possession of the company unclaimed for the space of three months, the company may on giving public notice thereof by advertisement for six weeks thereafter in the official gazette of the province in which such goods are, and in such other newspapers as it deems necessary, sell such goods by public auction, at a time and place which shall be mentioned in such advertisement; and, out of the proceeds thereof, pay such tolls and all reasonable charges for storing, advertising and selling such goods.

64. The heading preceding section 364 and sections 364 and 365 of the said Act are repealed and the following substituted therefor:

365. The Commission has and may exercise with respect to express tolls and express tariffs such powers as it has or may exercise under this Act with respect to freight tolls and freight tariffs; and all the provisions of this Act, except section 336, that are applicable to freight tolls and freight tariffs, in so far as such provisions are applicable and not inconsistent with the provisions of sections 366 to 368 and section 370, apply to express tolls and express tariffs”.

#### *Clause 65*

Strike out line 31 on page 50 thereof and substitute therefor the following:

65. Sections 367 to 369 of the said Act are re—  
and

Add immediately after line 41 on page 50 thereof the following section:

369. The Commission may by regulation or in any particular case prescribe, what is carriage or transportation of goods by express, or whether goods are carried or transported by express within the meaning of this Act.”

#### *Clause 66*

Strike out Clause 66 thereof and substitute therefor the following:

66. (1) Paragraph (b) of subsection (1) of section 378 of the said Act is repealed.

(2) Section 378 of the said Act is further amended by adding thereto, immediately after subsection (1) thereof, the following subsection:

(1a) Notwithstanding anything in any Act of the Parliament of Canada or of the legislature of any province, or any power or authority heretofor or hereafter conferred thereby or derived therefrom, the Commission may determine the height at which any company empowered by Special Act or other authority of the Parliament of Canada to construct, operate and maintain telegraph or telephone lines shall affix and maintain any wires

(a) above or across highways and public places in cities, towns and incorporated villages; and

(b) above, across or adjacent to any private way, entrance or lane used for vehicular traffic;

and no such company shall affix or maintain any such wires at any lower height than that so determined by the Commission, nor shall any such company erect more than one line of poles along any highway.



*Clause 70*

Strike out line 22 on page 53 thereof and substitute therefor the following:  
314A to 314J, 317, 329, 329A, 334, 336, 387B and this section, there

Strike out subsections (2) to (5), inclusive, of section 387B on pages 54 and 55 thereof and substitute therefor the following:

(2) When the Commission proposes to amend any regulations made under subsection (1), the Commission shall give notice of the proposed amendment in the *Canada Gazette* and in such additional publications as it deems desirable, and any transportation company organization, provincial authority or municipal authority in Canada may, within twenty days from the day of the publication of the notice in the *Canada Gazette*

- (a) request the Commission to hold hearings on the matter of the proposed amendment, or
- (b) give notice to the Commission that it intends to submit to the Commission views and recommendations on the matter of the proposed amendment, which views and recommendations shall be submitted in writing not later than forty days from the day of the publication of the notice in the *Canada Gazette*.

and the proposed amendment shall be brought into force not earlier than sixty days from the day of the publication of the notice in the *Canada Gazette* unless within the period limited therefor by this subsection a request is received by the Commission to hold hearings, or a written submission is received by the Commission setting out views and recommendations, on the matter of the proposed amendment.

(3) Where a written submission seeking a change in a proposed amendment mentioned in subsection (2) is received by the Commission within the time limited therefor by that subsection and no request to hold hearings on the matter of the proposed amendment is received by the Commission within the time limited therefor by that subsection, the Commission shall allow a further period of thirty days for the circulation of the submission and the receipt of comments thereon and the Commission may thereafter

- (a) bring the proposed amendment into force as originally proposed or as altered after receipt of the written submission and replies thereto, on a day fixed by the Commission,  
or
- (b) hold hearings on the proposed amendment.

(4) Where a request to hold hearings on a proposed amendment mentioned in subsection (2) is received by the Commission within the time limited therefor by that subsection, or where hearings are held under subsection (3) on the proposed amendment, the Commission shall

- (a) circulate any written submissions received pursuant to subsection (2) that have not already been circulated pursuant to subsection (3), and
- (b) hold such hearings as in its opinion are necessary to enable all persons who wish to do so to present their views to the Commission;

and thereafter the Commission may bring the proposed amendment into force, as originally proposed or as altered after such hearings, on a day fixed by the Commission.

(5) Where an amendment to a regulation made under this section is proposed by a person other than the Commission that has merit in the opinion of the Commission, the Commission shall circulate the proposal and replies thereto and, if the Commission considers it desirable to do so, the Commission may

- (a) bring the proposed amendment into force on a day fixed by the Commission, which shall not be earlier than ninety days from the day that the proposed amendment was received by the Commission;
- or
- (b) hold hearings on the matter of the proposed amendment and bring the proposed amendment into force, as originally proposed or as altered after such hearings, on a day fixed by the Commission.

#### *Clause 75*

Strike out line 6 on page 59 thereof and substitute therefor the following:

*Newfoundland with Canada, or by subsection (9) of section 319 or section 328 or*

#### *Clause 80*

Strike out the words, "other than those officers and employees referred to in subsection (3)," at lines 36 and 37 on page 60 thereof.

#### *New Clause 93*

Insert, immediately after Clause 92 thereof, the following heading and section:

##### *Miscellaneous*

93. Paragraph (e) of subsection (1) of section 6 of the *Aeronautics Act* is repealed and the following substituted therefor:

- (e) "hire or reward" means any payment, consideration, gratuity or benefit, directly or indirectly charged, demanded, received or collected by any person for the use of an aircraft.

Renumber the present Clause 93 of the said Bill as Clause 94 and strike out line 24 on page 65 thereof and substitute therefor the following:

- (3) Part IV and sections 1, 91, 92, 93 and this

#### *Schedule*

Strike out paragraph 3 of the Schedule at page 66 thereof, referring to the *Aeronautics Act*, and substitute therefor the following:

- 3. Section 7, subsections (3) to (5) of section 8, section 9, subsections (4a), (11), (12) and (13) of section 15, sections 19, 21 and 24 are repealed.

Strike out paragraph 2 of the Schedule at page 67 thereof, in respect of amendments to the *Railway Act*, and substitute therefor the following:

- 2. Subsection (2) of section 12 is repealed. and

Strike out the paragraph of the Schedule on page 67 thereof that refers to the *Lord's Day Act* and substitute therefor the following:

Paragraph (x) of section 11 is repealed and the following substituted therefor:

- (x) any work that the Canadian Transport Commission, having regard to the object of this Act, and with the object of preventing undue delay, deems necessary to permit in connection with the freight traffic of any transportation undertaking.

Your Committee has ordered a reprint of the Bill, as amended.

A copy of the Minutes of Proceedings and Evidence relating to this Bill (Issues Nos. 23 to 41 inclusive) is appended.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*



## MINUTES OF PROCEEDINGS

THURSDAY, November 24, 1966.

(73)

The Standing Committee on Transport and Communications met this day at 3.30 o'clock p.m. *In Camera*, the Chairman, Mr. Macaluso, presiding.

*Members present:* Mrs. Rideout and Messrs. Andras, Byrne, Cantelon, Deachman, Fawcett, Groos, Jamieson, Howe (*Wellington-Huron*), Legault, Lessard, Macaluso, McWilliam, O'Keefe, Pascoe, Reid, Rock (17).

*In attendance:* Honourable J. W. Pickersgill, Minister of Transport; Mr. J. R. Baldwin, Deputy Minister; Mr. Jacques Fortier, Director of Legal Services and Counsel; and Dr. Donald Armstrong, Economic Advisor to the Committee.

The Committee continued its clause by clause examination of Bill C-231.

New clause 16, carried as amended; clause 53, carried as amended; Title, carried.

The clauses, the Schedule and the Bill as amended carried.

The Chairman was ordered to report the Bill as amended.

The Chairman informed the Members that he had asked Dr. Armstrong, the Committee economist, to prepare a critique of the briefs presented this day.

The Chairman thanked the Committee Members for their co-operation and expressed their appreciation to the Minister of Transport for his attendance throughout the hearings relating to Bill C-231.

The Minister commended the Members for their efforts and interest in Bill C-231.

At 3.50 o'clock p.m., the Committee adjourned to the call of the Chair.

R. V. Virr,  
*Clerk of the Committee.*

OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

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LÉON-J. RAYMOND,  
*The Clerk of the House.*

HOUSE OF COMMONS  
First Session—Twenty-seventh Parliament  
1966-1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

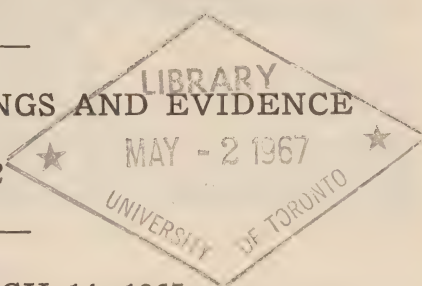
*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 42

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TUESDAY, MARCH 14, 1967

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Respecting

Bill S-31, An Act respecting Quebec North Shore and Labrador  
Railway Company.

Bill C-239, An Act respecting The Bell Telephone  
Company of Canada.

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WITNESSES:

*Representing the Quebec North Shore and Labrador Railway:* Mr. W. J. Bennett, President, Mr. C. B. Greenwood, Traffic Manager, Mr. Gregory Gorman, Parliamentary Agent and Mr. G. Blouin, M.P., Sponsor of Bill S-31, *Representing the Bell Telephone Company of Canada:* Mr. M. Vincent President, Mr. A. J. de Grandpré, Vice-President (Law), Mr. Gregory Gorman, Parliamentary Agent and Mr. R. C. Honey, M.P., Sponsor of Bill C-239.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

Mr. Bell ( <i>Saint John-</i> <i>Albert</i> ),	Mr. Howe ( <i>Wellington-</i> <i>Huron</i> ),	Mr. O'Keefe,
Mr. Blouin,	Mr. Jamieson,	Mr. Olson,
Mr. Cantelon,	Mr. Lessard,	Mr. Orange,
Mr. Clermont,	Mr. Lind,	Mr. Pascoe,
Mr. Emard,	Mr. MacEwan,	Mr. Reid,
Mr. Habel,	Mr. McWilliam,	Mr. Rock,
Mr. Horner ( <i>Acadia</i> ),	Mr. Nowlan,	Mr. Schreyer,
Mr. Howard,		Mr. Sherman,
		Mr. Southam—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

## ORDERS OF REFERENCE

FRIDAY, December 9, 1966.

*Ordered*—That Bill S-31, An Act respecting Quebec North Shore and Labrador Railway Company, be referred to the Standing Committee on Transport and Communications.

THURSDAY, February 16, 1967.

*Ordered*—That Bill C-239, An Act respecting The Bell Telephone Company of Canada be referred to the Standing Committee on Transport and Communications.

THURSDAY, March 9, 1967.

*Ordered*—That the names of Messrs. Lewis, Howard, Orange, Habel, Lind, Clermont, Emard and Addison be substituted for those of Messrs. Fawcett, Schreyer, Andras, Byrne, Deachman, Groos, Legault and Lessard on the Standing Committee on Transport and Communications.

MONDAY, March 13, 1967.

*Ordered*—That the names of Messrs. Blouin, Lessard, and Schreyer be substituted for those of Mrs. Rideout, Messrs. Addison and Lewis on the Standing Committee on Transport and Communications.

Attest.

LEON J. RAYMOND,  
*The Clerk of the House of Commons.*

## REPORT TO THE HOUSE

THURSDAY, March 16, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### FOURTEENTH REPORT

Your Committee has considered Bill S-31, An Act respecting Quebec North Shore and Labrador Railway Company, and has agreed to report it without amendment.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue No. 42*) will be tabled later.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*



## MINUTES OF PROCEEDINGS

TUESDAY, March 14, 1967.

(74)

The Standing Committee on Transport and Communications met this day at 9.45 o'clock a.m., the Chairman, Mr. Macaluso, presiding.

*Members present:* Messrs. Bell (*Saint John-Albert*), Blouin, Cantelon, Clermont, Emard, Howard, Lessard, Macaluso, MacEwan, Nowlan, Olson, Pascoe, Reid, Rock, Schreyer—(15).

*Also present:* Messrs. Byrne, Honey, Hymmen, Peters.

*In attendance:* *Representing the Quebec North Shore and Labrador Railway:* Mr. W. J. Bennett, President, Mr. Gregory Gorman, Parliamentary Agent and Mr. C. B. Greenwood, Traffic Manager. *Representing the Bell Telephone Company of Canada:* Mr. M. Vincent, President; Mr. A. J. Groleau, Executive Vice-President (Administration); Mr. R. C. Scrivener, Executive Vice-President (Operations); Mr. A. G. Lester, Executive Vice-President (Planning and Research); Mr. A. J. de Grandpre, Vice-President (Law); Mr. Gregory Gorman, Parliamentary Agent.

The Sponsor of Bill S-31 introduced Mr. Gregory Gorman who in turn introduced Mr. Bennett and invited him to make brief introductory remarks regarding the Quebec North Shore and Labrador operations.

The Members questioned the witness.

The Committee then considered the clauses of Bill S-31.

Clause 1, the preamble, the title and the bill were carried, and the Chairman was instructed to report the Bill without amendment.

Mr. HONEY, Sponsor of Bill C-239, introduced the Parliamentary Agent and officials of the Bell Telephone Company of Canada.

Mr. de Grandpre, Vice-President (Law) of the Company gave a summary of the Bell position regarding the Bill.

The Members questioned the Bell officials regarding their Brief.

Moved by Mr. Rock, seconded by Mr. Lessard,

*Resolved,*—That the Brief of the Bell Telephone Company of Canada be printed as an appendix to this day's Minutes of Proceedings and Evidence (See Appendix A-44).

At 11.40 o'clock a.m., the Committee adjourned to the call of the Chair.

R. V. Virr,

*Clerk of the Committee.*



## EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, March 14, 1967.

The CHAIRMAN: Gentlemen, there is a quorum. Our agenda today deals with Bill No. S-31, An Act respecting Quebec North Shore and Labrador Railway Company, and Bill, No C-239, An Act respecting The Bell Telephone Company of Canada. The only purpose in calling Bill No. C-239 today is that the officials of the Bell Telephone Company can present their briefs. There are other witnesses to be called on the Bell brief who wish to be heard so I doubt that we will be able to get to it until the next session. Perhaps we can decide later on whether questioning will continue on the Bell bill this afternoon, or whether the witnesses will be recalled for questioning when the other briefs are presented.

At the present time I want to call on Mr. Blouin to introduce the parliamentary agent with respect to Bill No. S-31. Mr. Blouin is the sponsor of the bill in the House. Mr. Blouin, will you introduce the parliamentary agent on this matter?

Mr. BLOUIN: Thank you Mr. Chairman. Members of the Committee, I have the pleasure to introduce to you Mr. Gorman, Parliamentary Agent for the Quebec North Shore and Labrador Railway Company.

The CHAIRMAN: Mr. Gorman, would you care to introduce your people please, who will be presenting the brief?

Mr. Gregory GORMAN (*Quebec North Shore and Labrador Railway Company*): Mr. Chairman and hon. members, the president of the Quebec North Shore and Labrador Railway Company, Mr. W. J. Bennett is here this morning and will be able to provide you with a full explanation of the purpose of the bill and to answer any questions that you may ask him. Mr. Greenwood who is the Traffic Manager for the Railway Company will also be available.

Mr. W. J. BENNETT (*President of the Quebec North Shore and Labrador Railway Company*): Members of the Committee I propose to summarize the remarks that were made in the Senate and subsequently in the House when the bill was in those two chambers. The purpose of the bill is to grant authority to the Quebec North Shore and Labrador Railway Company to complete its line of railway within the period ending on May 14, 1977. The company's present authority so to complete its line expires on May 14, 1967—this year.

The company was incorporated in the year 1947 for the purpose of constructing and operating a railway from the St. Lawrence River at a point between the rivers Marguerite and Moisie in the province of Quebec and thence northerly through Labrador, ultimately to a suitable port on Ungava Bay. It was necessary, as you will understand, that the authority of Parliament be sought in



1947, inasmuch as the proposed line at that time traversed two countries, Quebec and Newfoundland. Newfoundland Labrador was not a part of Canada in 1947.

The portion of the line which has been constructed to date runs a distance of 355 miles—149 miles in Quebec, and 206 miles in Labrador—from Sept Iles, Quebec, through Labrador, to Schefferville, Quebec. It has been constructed at a cost of slightly over \$162 million. The purpose, of course, of building the railway was to make possible—and this was the key to the whole development—the opening up of the iron ore deposits located in what is commonly called, the Quebec Labrador crop. There are two main areas where iron ore is now mined; that is, two main areas that are served by this railway. These are in the Schefferville region and the Wabush-Carol Lake region. There is, of course, one other large development, Quebec Cartier, which is wholly in Quebec and it has a private railway because it was not required to come under the Railway Act, being entirely in the province of Quebec.

The Wabush-Lake Carol operations are located about 225 miles northwest of Sept Iles and about 40 miles to the west of the main line of the Quebec North Shore and Labrador Railway Company and they are connected to the main line by a 40-mile railway, the road bed, the track, switches and so on of which is owned by a company called Northern Land and there are two operating companies that use these facilities.

The Committee may, I think, be interested in when the company plans to extend its railway further north than Schefferville. The answer to this question, as to so many questions, depends upon the market and the economics of the market. As in the past, the Canadian iron ore industry will continue to rely on export markets for the bulk of its iron ore sale, despite the increasing consumption of domestic ore by the Canadian steel industry and throughout the world there are now vast known deposits of iron ore. Some, such as those in South America, Africa, Sweden, are already in production. Others, such as those in Australia, are under very intensive development with the result that there is now quite keen competition for sale of iron ore in world markets and, in my view, this is likely to increase.

Many of the new deposits are higher in grade and more accessible to tide water than those in the Quebec Labrador region. On the other hand, the Labrador Quebec region has certain advantages and if I may quote from a rather interesting publication which is put out by the Department of Mines and Technical Surveys on the Canadian Iron Ore Industry—this is an annual publication:

Factors influencing the growth in Canadian iron ore exports include the expanding demand for iron ore in consuming countries; the inability of some traditional sources to meet the increase in demand; an increasing demand for beneficiated, high-grade ore; the relative proximity of large Canadian reserves of beneficiating-grade material to the large steel making centres of the United States and, to a lesser extent, Western Europe; Canada's favourable political climate, which is conducive to capital investment, and its incentive mine-taxation policies.

The Iron Ore Company of Canada which is at the northern extremity of the railway is this year opening up a new deposit called the Redmond Mine which is located about 9 miles south of Schefferville. This will be connected to the main

line of the Quebec North Shore and Labrador Railway Company. There are also other known deposits of iron ore north of Schefferville. For example, the Iron Ore Company of Canada has deposits about 50 miles north of Schefferville in the province of Quebec. These deposits are in the company's program of future development. Now, exactly when development will occur will depend, as I have said, on market conditions, but we feel that as and when the decision to proceed with the development of these ore bodies is made, the railway should be in a position to proceed with the extension of its line without undue delay and this is basically why we are asking Parliament to extend the time during which we are permitted to complete the line as authorized in the original charter.

For those of you who are not familiar with the region, there is a map here. I do not know, Mr. Chairman, where we can put this up, or whether you would want to pass it around.

I think, Mr. Chairman, that concludes my remarks. I would be very happy to answer any questions the Committee may have.

The CHAIRMAN: We will continue the practice that was adopted by this Committee by motion, I believe, that the questioning will be by ten minute intervals, and if anyone wishes to continue questioning, they will do so on a second round.

Mr. HOWARD: I am pleased about the map, Mr. Bennett. It would help if you would put it on the wall. It would help to get oriented geographically just what we are talking about. Could you tell me what mileage is involved where lines have not been built? You know, from the original. . .

Mr. BENNETT: A distance north of Schefferville, if you went to the closest point on Ungava Bay, probably of about 220 miles. That would be the closest point. There has been no route determined, really.

Mr. HOWARD: You have not conducted any surveys?

Mr. BENNETT: Well, we have to this fifty mile ore deposit that I mentioned but not beyond that. I think if the experience with the first line is any guide—and I think it will be—you try to follow the river valleys wherever there are rivers and there are some quite large rivers.

Mr. HOWARD: But 220 miles is the shortest route?

Mr. BENNETT: Yes, I would think so, to a tidewater port.

Mr. HOWARD: You have no idea when you might be doing this?

Mr. BENNETT: Again, this depends on the markets.

Mr. HOWARD: Can you tell me when you completed the first leg—if that is what it is—of the line?

Mr. BENNETT: In 1954.

Mr. HOWARD: In 1954. That was to Schefferville?

Mr. BENNETT: Yes, that was the section to Schefferville. The 40-mile line which is jointly owned was completed in 1961.

Mr. HOWARD: It was completed from Sept Iles to Schefferville in 1954? Is that correct?

Mr. BENNETT: Yes.

Mr. HOWARD: Is the 40-mile line owned by some land company?

Mr. BENNETT: It is owned by a company called Northern Land, and Northern Land is owned jointly by the Iron Ore Company of Canada and the Wabush group.

Mr. HOWARD: I see.

Mr. BENNETT: They own the road bed, tracks, switches, sidings and so on.

Mr. HOWARD: Because this is entirely within the province of Quebec the Northern Land Company did not require any federal parliamentary sanction.

Mr. BENNETT: No, it is actually in Labrador.

Mr. HOWARD: Is the Quebec North Shore and Labrador Railway Company a subsidiary of Iron Ore Company of Canada?

Mr. BENNETT: It is a wholly-owned subsidiary of the Iron Ore Company of Canada. Actually, it predated the Iron Ore Company of Canada by two years of the date of its incorporation. The railway really was the key to the opening up of the Iron Ore Company of Canada.

Mr. HOWARD: My friend Mr. Peters, says the Hollinger gold mines just about went broke as a result of this. That is neither here nor there at the moment.

In the initial statute of 1947 I recall there was a 10-year period for the entire area from somewhere on the St. Lawrence—which you enumerated—to the Ungava Bay region.

Mr. BENNETT: That is correct.

Mr. HOWARD: Within that 10-year period you completed the portion to Schefferville. You have not done anything since then?

Mr. BENNETT: No, we have not done anything since then because we have been mining the deposits in the immediate vicinity of Schefferville.

Mr. HOWARD: The thing which concerns me, Mr. Bennett—and I am sure I have expressed this thought in the House but perhaps not in these exact words—is that this will be the second 10-year extension for which the company is asking, and in the first 10-year extension no activity was taken with respect to the extension of the line at all. Your comments now are in a vague area; that you are not sure whether it will be done or not.

Mr. BENNETT: I would expect that this deposit 50 miles north of Schefferville is within our program.

Mr. HOWARD: Within the 10-year period?

Mr. BENNETT: Yes, over the next 10 year period.

Mr. HOWARD: But nothing beyond that.

Mr. BENNETT: There is nothing beyond that, no. You see, this is very expensive country to build a railway in and you only build as the economic need exists. Of course, as you know, Mr. Howard, there is nothing exclusive about this. Our having an extension does not prevent some other group from coming here and getting rights to build a railway into that area. As a matter of fact, I think it was in 1960 that the Wabush group came to Parliament and obtained the right to build a line from the Wabush property down to Sept Iles so that—



Mr. PETERS: We would rather you explained it. We would rather see the explanation than hear it anyway.

Mr. ROCK: We still want to see this on a map.

Mr. BENNETT: I will give the locations. We have Schefferville first of all then the Wabush—Carol—

Mr. HOWARD: Excuse me, Mr. Bennett. Is Schefferville just beyond the Quebec—Labrador border?

Mr. BENNETT: It is, yes.

Mr. HOWARD: Is there any dispute between the province of Quebec and the Canadian government about the location of the border in that locale?

Mr. BENNETT: The Canadian government or the government of Quebec?

Mr. HOWARD: Between the two; is there any contention to say that this is not the boundary?

The CHAIRMAN: That is beyond Mr. Bennett's purview here, Mr. Howard.

Mr. BENNETT: Let me say this. Actually the ore bodies at Schefferville lie on either side of the boundary as you would determine if from the Privy Council decision. We have had no problems with either province with respect to payment of our royalties which is based on tonnages. From a company standpoint, we have not been involved in any dispute.

Mr. HOWARD: I was not concerned about the royalty part of it.

Mr. BENNETT: I only mentioned the royalties because they are based on the earnings from tonnage. We must determine whether it comes from the Labrador side or the Quebec side. But we have had no problem on this score. That black line is presumed to be the boundary based on the Privy Council decision.

Mr. HOWARD: Where is the area that you say is 50 miles from there? Could you point out the end of the railway? And the hopes are that it will proceed to where?

Mr. BENNETT: The original charter provided for a line to the bay.

Mr. HOWARD: You were saying something about Wabush having obtained passage of a bill to build a railway down to Sept Iles.

Mr. BENNETT: Parallel to the existing line, in fact.

Mr. HOWARD: But they have not done anything about it?

Mr. BENNETT: No, because we were able to work out our problems.

The CHAIRMAN: Mr. Howard, they had a rate problem.

Mr. HOWARD: Yes, I know this. They were having trouble and proceeded on another course.

Mr. BENNETT: They had two provincial railway companies. They had one from their Wabush operation out to the main line, and then down to the south they take off at mile 8 and go around the bay of Seven Islands to Pointe Noire. The first one of these was a Newfoundland company and the second one was a Quebec company, and Wabush came here in 1960 and got the authority of Parliament. First of all they brought these two railways under the Railway

Act and they also got the authority of Parliament to build a line. I am not sure whether that authority has expired or not but, in any event, we did reach an agreement.

Mr. HOWARD: Would I be correct in assuming that if any other company desired to build a line from Ungava Bay to Schefferville that they would not require the authority of the Parliament of Canada?

Mr. BENNETT: This is a good question. It is entirely in the province of Quebec, is it not?

Mr. HOWARD: Yes.

Mr. BENNETT: I would not think so. There are some very eminent counsel in this room who might answer that question but I would not think this would require the authority of Parliament. You see, Quebec-Cartier, for example, which is another very large iron ore development, is entirely within the province of Quebec. Their railway is not a common carrier; it is not under the Railway Act; it is not under the Board of Transport Commissioners; it is actually part of the mining company.

Mr. HOWARD: But with respect to your company you are in a different position, are you not?

Mr. BENNETT: Very different, yes.

Mr. HOWARD: You started off with the intention of proceeding all the way, requiring the authority of Parliament.

Mr. BENNETT: That is right.

Mr. HOWARD: If the authority granted in 1957 were now to expire, for argument's sake, you would not be able to incorporate within the province of Quebec to build that Ungava—Schefferville extension because it is part of the whole complex. Am I correct in assuming that?

Mr. BENNETT: That could be a problem, yes.

Mr. HOWARD: Have you explored this with your legal people?

Mr. BENNETT: Our legal advice is that in order to put ourselves in a position to proceed with the building of this 50-mile extension—

Mr. HOWARD: That this is necessary.

Mr. BENNETT: This is the most appropriate way to do it. Otherwise, if we do not have any authority to do this there would be some question whether we would come back here. I do not know; it could be a problem.

The CHAIRMAN: If no one else wishes to question Mr. Bennett I will let Mr. Howard continue.

Mr. OLSON: Mr. Chairman, I would just like to ask if there are any suitable harbour sites on Ungava Bay that you have surveyed.

Mr. BENNETT: We have not surveyed any sites there. Premium Iron Ores have a property there which I believe they were proposing to develop 4 or 5 years ago in co-operation with German interests and they did a lot of work and they found a harbour. There are problems with all the harbours up there because, as you probably know, I believe they have the highest tides in the

world; they have fantastic tides. And then, of course, you have the ice problem. That particular project, I think, was based on a short shipping season to Greenland. They were going to store their product in Greenland and move it out of there as they needed it.

Mr. OLSON: How many months of the year could you ship out of Ungava Bay?

Mr. BENNETT: I really cannot give you an accurate answer to that question but it would not be a long shipping season.

Mr. BLOUIN: It is about three months of the year.

Mr. BENNETT: This point I made about the increasing abundance of iron ore around the world—

Mr. BELL (*Saint John-Albert*): I would just like to take this opportunity to ask Mr. Bennett a couple of general questions. First of all, what percentage of your ore production goes seaway versus overseas?

Mr. BENNETT: First of all, it does not all go overseas. Some of it goes down the west coast to the States. I think our seaway shipments this past year were 5½ million tons and we shipped 14 million tons. Of that 14 million tons I would think—just speaking from memory—about 3 million tons went overseas, 5.5 million tons went up the seaway and the balance went down the east coast. You see, it depends on the location of some of our customers' plants. The largest steel complex of Bethlehem Steel, for example, is located at Sparrows Point. This can be served more readily by going down the coast.

Mr. BELL (*Saint John-Albert*): What is your position with respect to seaway tolls? Have you stated your position on this either before yesterday's announcement—

The CHAIRMAN: I think that has nothing to do with the present discussion. We will have plenty of opportunity to discuss this. I think perhaps you can return to your other line of questioning. It is very hard for me as Chairman, you understand, if you go off on that subject too.

Mr. BELL (*Saint John-Albert*): I think it should be recorded in the record that the Chairman is not interested in seaway tolls.

The CHAIRMAN: I think I do not even have to answer that after my own comments on this topic.

Mr. BELL (*Saint John-Albert*): I am going to try another question then that I think has some connection. What do you think of the new transportation legislation with respect to the operations of the company? This is only for information, I am not trying to—

Mr. BENNETT: I think the feature of the new bill that we like is that you can now develop a rate structure based on volume. This operation of ours, of course, is one where you have fairly wide swings from year to year. Now, as it happens, during the last three or four years we have not had. But we have been down as low as 7 million tons, and as high as 14 million tons and, as you know, under the old Railway Act—well, I guess it is still in existence because I do not believe the new one has been proclaimed yet—you had this basic principle that the rate



must be the same for one ton as for a million tons. Under the new legislation we are able to develop, and we actually are now in discussions with our principal shipper, other than the Iron Ore Company, on this very point. This is the great attraction from our standpoint. This railway does not lend itself to the fixed unit rate concept.

The CHAIRMAN: With that answer, Mr. Bell, we will get off the topic of the new transportation legislation.

Mr. BELL (*Saint John-Albert*): It is your legislation; your government.

The CHAIRMAN: Well, you had plenty of time to go with this when the Committee was dealing with it, Mr. Bell.

Mr. BELL (*Saint John-Albert*): I am trying to find something good in it, Mr. Chairman.

The CHAIRMAN: Well, let us deal with Bill S-31, please, Mr. Bell.

Mr. BELL (*Saint John-Albert*): You think you are still on the Defence Committee. We are all very happy here; we are just looking for information.

The CHAIRMAN: If you are finished, Mr. Bell, we will go on with Mr. Peters.

Mr. PETERS: I have some small interest in this area; unfortunately I did not pursue it.

An hon. MEMBER: Shares?

Mr. PETERS: No, I have a nephew that spent the summer in that area three years ago and last summer again he spent the summer there. I gather that there are three major towns in that particular area; Schefferville, Wabush and Labrador City—

Mr. BENNETT: That is right.

Mr. PETERS: —and that there has been a great deal of conflict on the part of your railway over servicing those other two towns the Wabush operation and the Labrador City one. One of the towns is not serviced—is it Labrador City—beyond the railroad.

Mr. BENNETT: What do you mean by beyond the railroad?

Mr. PETERS: Where on the map is Labrador City?

Mr. BENNETT: Labrador City and Wabush are three miles apart.

An hon. MEMBER: Just 224 miles north of Sept-Iles, and 37 miles to the west.

Mr. PETERS: Is there a railway connection to it?

Mr. BENNETT: Oh, yes.

Mr. PETERS: Then this is the Wabush.

Mr. BENNETT: There is a railway connection to both Wabush and Labrador City.

Mr. PETERS: Where is Wabush?

An hon. MEMBER: The distance between the two townsites is three miles.

Mr. PETERS: And they are two different companies, are they?

Mr. BENNETT: Well, there are two different companies operating in there and there are two municipalities.

Mr. PETERS: Are they company towns?

Mr. BENNETT: No. They were set up under what you would call, I suppose, local improvement districts. They are at that stage where they have an administrator, but they are under the Department of Municipal Affairs. They are in the process of evolving, as you do in Ontario. There are local improvement districts, then you have an elected council and a reeve or a mayor as the case may be.

Mr. PETERS: I seem to recall that there has been a great deal of difficulty in that area over railway operations. The story that I hear is that this railway is run primarily for the operation of the Iron Ore Company of Canada, and that anything else is incidental.

Mr. BENNETT: Well, we have our traffic manager here, and I would imagine that if we—

Mr. PETERS: There are seven or eight large diamond drilling companies in my area, and they do the diamond drilling up there—at least, a lot of it—and they have great difficulty in getting in unless they fly. There has been some restriction on—

Mr. C. B. GREENWOOD (*Traffic Manager, Quebec North Shore and Labrador Railway Company*): Mr. Peters, we operate a general merchandise train every day of the week, Sunday included. We also provide, three times a week, a passenger service. This operates northbound on Tuesdays, Fridays and Sundays, and southbound on Wednesdays, Thursdays and Mondays. We have determined that up to now this is adequate for the number of people travelling in that area.

Mr. PETERS: Was there not some great difficulty when you refused people the right to ride on your railroad?

Mr. GREENWOOD: Oh, no sir. This has never been the case. We cannot, under the present law.

Mr. PETERS: Was there not a court case over this?

Mr. GREENWOOD: Not that I am aware of.

Mr. BENNETT: Fortunately we do not have the rights to the Moisie River.

Mr. PETERS: I am still curious. I am aware of the fact that originally, when Hollinger was in there with a proposed development of dock facilities, the deep sea port was probably as important as the connection to Seven Islands. I am curious, and I am sure you are not going to tell me unless I ask, but what is the relationship if another deposit is developed outside of the Iron Ore Company area north of your present line and the property needs an outlet? It just seems to me that there was some great difficulty in their getting a connection.

Mr. BENNETT: No, the difficulty with Wabush was a very simple one, and it is understandable. They were out to get the best deal they could, and we finally resolved with them. But, keep in mind, Mr. Peters, that we are under the Railway Act, and under the Board of Transport Commissioners or the new authority, and we are not a private operator. We are exactly the same as the CPR and CNR with respect to the provision of public services.

While we are on this question of another deposit, as I mentioned earlier, this extension—indeed the original charter—does not give us exclusive rights to build a railway in that territory. What I imagine would happen if someone found a large base metal deposit up midway between Schefferville and Ungava Bay is that you would get together, just as you would talk to the CNR or the CPR if they were involved. But if you were unable to arrive at a suitable understanding, there would be nothing to prevent that company or those companies from building their own railway line. In other words, we have no exclusive rights here and we are not seeking any. While we operate, we have to operate under the ground rules of the board—the Railway Act.

Mr. PETERS: Well, let us say this ten year extension lapses and you have your project 50 miles north. The CNR, under those circumstances, would come before Parliament and ask for that 50 mile extension. Probably, if there were other railways involved, the Board of Transport Commissioners would make recommendations along with the original application. In this particular case, in asking for this large amount when you are not going to build now—at least, from what you have said I do not see that there is going to be any great effort made to build to the end of the proposed line—are you not really tying up—

Mr. BENNETT: No, because we do not have an exclusive right.

Mr. PETERS: I agree you do not, but instead of having this clause that allows you an extension on a ten-year basis, what is the disadvantage of your company coming to Parliament when it wants to build a line, rather than having a jurisdiction.

Mr. BENNETT: It seems to me much simpler from everybody's standpoint to get an extension of our present rights. If they have to start all over again and come to Parliament for a bill, to build—

Mr. PETERS: Yes, but if I remember, in 1947 when you came here first the work had been done on the feasibility of a dock at Ungava Bay at that time. There was some talk of contracts with Germany for ore—not pelletized—but in a raw state. There were at least proposals laid out. Now those proposals do not appear to be in the cards, and I am just wondering why. From our point of view as legislators, you are opening up a whole new area with this railway, and it is a development railroad, and it is run by a company that primarily is interested in one particular product. We should be in a position to develop it, as I see it, to the extent of servicing the whole area and providing as much stability in that area as possible. The railroad should do this and the extension does not seem to have any merit any longer.

Mr. BENNETT: Well, I simply come back to what I said a moment ago. If there are major discoveries of base metals—for example, to the north—there is nothing that gives us an exclusive right to serve them. We could in no way control, or impede, the development of that area.

The CHAIRMAN: In other words, if Wabush group wanted to build the railway from their location to Seven Isles—

Mr. BENNETT: They would go to Parliament for authority to do it.

Mr. PETERS: I agree, Mr. Chairman.

Mr. OLSON: One railway would carry all the products from all of them.



Mr. PETERS: We, as a nation, would be in a very stupid position if we allowed that kind of thing to happen. We were offered the right for the Canadian National to put in a 60-mile extension beyond a private railroad, and it struck me as being downright stupid. We are in this position with the Iron Ore Company. This is not really a railroad; this is part of a mining operation. I am reluctant to agree to this kind of extension because of the primary interest of the railroad, which is the operation of their own mining operation rather than the development of that area.

I have no objection to your putting in your extension to the new mine you are talking about, but I do not see why this railway company should not be given some responsibility for developing some of the other area if this becomes necessary. In other words, what has already happened in the Wabush development we should not be promoting, and we should not allow to happen again. You have had to develop another little company to put in that 40-mile extension, where this railway should have built that extension themselves.

Mr. GREENWOOD: Well, there were reasons, which I—

Mr. PETERS: Then you should have asked them for a rate structure.

Mr. HYMMEN: Mr. Chairman, I would just like to ask Mr. Bennett a general question, and it is very very general, since we have the map in front of us, where does the CNR terminate? Is Lake St. John on the map?

Mr. BENNETT: Oh, yes—it is a long way away.

Mr. GREENWOOD: The Canadian National Railways terminate on the north shore of the St. Lawrence River, at a place called Pointe-au-Pic.

Mr. HYMMEN: No, no. Lake St. John, up in the south section.

Mr. GREENWOOD: Lake St. John is to the west.

Mr. BENNETT: That is right; that is what he is asking.

Mr. HYMMEN: It is a long, long way. It was just going to ask what other railways extend from that area.

An hon. MEMBER: That is the closest. I would think.

Mr. BENNETT: It runs along the St. Lawrence, right down to La Malbaie, 90 miles east of Quebec City.

Mr. HYMMEN: My interest was in the potential development, mineral and otherwise, of the area to the west, going up the east of James Bay, and I did not realise the CNR was so far away from the tip of James Bay.

Mr. ROCK: Mr. Greenwood, you started to explain the railway system that exists, and somehow you were sidetracked by other questions, and I do not think this was completed. Actually I would like to know the operation of the railway system that exists from Seven Islands right up north, and the intention for the future. By this I mean, is it your company that operates all the way from Sept Iles to Schefferville?

Mr. GREENWOOD: Well, the Quebec North Shore and Labrador Railway at present provides the service from Sept Iles northward to Schefferville.

Mr. ROCK: Completely?

Mr. BENNETT: Three hundred and fifty five miles.

Mr. ROCK: Now, where are the Wabush rights? From where to where?

Mr. GREENWOOD: The Wabush Lake Railway Company have an interchange with the Quebec North Shore and Labrador Railway at milepost 224. Two hundred and twenty four miles north of Seven Islands.

Mr. ROCK: But do they have any system at all, or do they just have a right?

Mr. BENNETT: They operate over this with their own—

Mr. GREENWOOD: They operate their own freighters over the joint section known as Northern Land Company Limited.

Mr. BENNETT: It is owned jointly by the two companies.

Mr. ROCK: By which two companies?

Mr. BENNETT: The Iron Ore Company of Canada, and the Wabush group.

Mr. ROCK: And do you have any that go over that too?

Mr. BENNETT: Yes, we have a—

Mr. ROCK: An arrangement? And you have nothing paralleling it?

Mr. BENNETT: We are operating over the same roadbed.

Mr. ROCK: Would you explain then, on the map, how that exists?

Mr. GREENWOOD: The trains are operating between Sept Iles and Rockway Junction which is at milepost 224.

Mr. ROCK: Who owns that?

Mr. GREENWOOD: The Quebec North Shore and Labrador Railway Company. At this point it interchanges traffic with either the Wabush Lake Railway Company, owned by Wabush Mines, or the Carol Lake Company, the wholly-owned subsidiary of the Iron Ore Company. Then the Quebec North Shore and Labrador Railway Company travels north to Schefferville, and at present it is surveying the properties north of Schefferville for a distance of about 50 miles to take care of any future mining development in that area.

An hon. MEMBER: They are not serving them now.

Mr. GREENWOOD: No; they are surveying.

Mr. ROCK: Then you are trying to have the extension of your rights to go right up to Ungava Bay?

Mr. GREENWOOD: Up into this area here.

Mr. ROCK: A statement was made that someone was reluctant to give you this right to continue, because somehow you are just interested in servicing certain mines. If any financial interest wanted to develop the area between Schefferville and Ungava, you would be interested in providing service for them no matter who they are?

Mr. GREENWOOD: That is correct, yes.

Mr. BENNETT: We are required at the present time to provide a public service, as a common carrier.

Mr. PETERS: Could I ask a supplementary question following this? If you say you have this obligation, why did you not build the Wabush instead of having to set up another company in that area?

Mr. BENNETT: Because Wabush wanted to build its own line at that point.

Mr. PETERS: Well, Wabush would not—

Mr. BENNETT: No, no; they went to the government of Newfoundland and got a charter from the government of Newfoundland to build a railway. The original—

Mr. PETERS: You were also a partner in that.

Mr. BENNETT: Carol Lake— No, we are entirely separate there.

Mr. PETERS: I just understood that this was jointly owned by Carol Lake Development and Wabush Mines; is that not correct?

Mr. BENNETT: No, no; not the mines.

An hon. MEMBER: The railways.

Mr. BENNETT: What we said originally was that the Wabush group had a company incorporated, and got a charter to build a line from its property over to the Quebec North Shore and Labrador Railway Company. We then sat down and kicked this one around, it was obviously silly, so we decided we would jointly provide the roadbed. But it was not because we were not prepared to provide the service.

Mr. HOWARD: It might be difficult for you to explain this, but can you explain why Wabush also wanted the right to run a line down to the St. Lawrence?

Mr. BENNETT: This came up as a by-product of an application for running rights over Quebec North Shore and Labrador Railway. In order to get running rights it was necessary that the two Wabush railways, both of which were provincial companies—one, Newfoundland, and one, Quebec—be brought under the Railway Act, which was done in 1960. At the same time the group sought and got approval to build a line, and then made application for running rights. This went to the Board of Transport Commissioners, and we had a long and strenuous hearing which lasted two or three months on the application for running rights over the Quebec North Shore and Labrador Railway.

An hon. MEMBER: Was this because you could not agree on the rates?

Mr. BENNETT: No, I do not think so at that point. We did agree, after all the battling was over; we did sit down and agree on it.

Mr. OLSON: But at the initiation of this application?

Mr. BENNETT: Of course, at that time, Wabush was not in business, there was some fear on their part that we would not be able to agree on rates. Of course, they could always go to the Board of Transport Commissioners if they did not like the rate; we resolved this problem.

The CHAIRMAN: They are one of those who consider themselves captive shippers, Mr. Olson.

Mr. HOWARD: Can you predict when this 50-mile extension will be built?



Mr. BENNETT: Not too accurately, no.

Mr. HOWARD: One year, two years, or three years?

Mr. BENNETT: No, I would not think that soon.

Mr. HOWARD: Five years?

Mr. BENNETT: You are asking me to do something that I would like to be able to do, and that is to forecast the demand for iron ore over the next five years. I have difficulty doing it over one year.

Mr. HOWARD: Would I be correct in saying that Quebec North Shore and Labrador Railway Company now does have the exclusive right to build this railroad to Ungava Bay, unless some legislative body decides otherwise?

Mr. BENNETT: This is the body that decides.

Mr. HOWARD: Yes, but only in that case?

Mr. BENNETT: I do not think we have an exclusive right. I do not think there is anything in our charter that says that we have the exclusive right.

Mr. HOWARD: Well, then, you have a prior right by being there; by having the franchise.

Mr. BENNETT: That is not an exclusive right.

Mr. HOWARD: That is exclusive unless the Parliament of Canada decides otherwise. Certainly it would be too much to expect that a company, having got a private bill through Parliament, was exempt from parliamentary action in the future. I am not talking about exclusiveness in that context, but in the context that you have the right, and it is exclusive unless and until the Parliament of Canada decides otherwise.

Mr. BENNETT: This seems to me to be a perfectly reasonable situation.

Mr. HOWARD: Indeed; all I am trying to do is pin down a more precise definition of the word "exclusive" in the context of how you are operating.

Mr. BENNETT: I can say it no better than I tried to say it before: We are in no position to prevent anyone else from coming here and getting a charter.

Mr. HOWARD: Indeed.

Mr. BENNETT: The best evidence I can offer in support of this statement is that Wabush did this in 1960.

Mr. HOWARD: Would your company be prepared to put up a performance bond for the extension of your railway northward to Ungava?

Mr. BENNETT: Oh, I do not think so, no.

Mr. HOWARD: To me this would seem reasonable, because you are asking for the right to build the railroad. Your performance up to date has not indicated that you intend to carry it out; not over the last 10 years anyway. There is great doubt that you would be able to do it in the next 10 years if I interpret your words correctly. In fact, you are not even sure, within any reasonable bounds, about the 50-mile extension. It would appear to me to be reasonable—

Mr. BENNETT: What do you mean by a performance bond with reference to what we are asking for here?

Mr. HOWARD: The only experience I have to go on here is in the province of British Columbia, where applications are made by private companies for rights to do certain things. Approval is given either by the legislature, or by the government, depending on which authority is sought, or which has the right to give it. A bond is put up of monetary value, or cash or something of this sort, that says: We undertake to proceed with this project within a certain period of time, and if we do not, then we lose our deposit, in effect.

Mr. BENNETT: There is no public moneys involved in this enterprise.

Mr. HOWARD: No, but there are public rights involved, and you are asking for it.

Mr. BENNETT: That is true, but I remind you that there was no interest shown at all in 1947, by either the CNR or the CPR in spending \$162 million to build a railway into Schefferville; indeed, there were some people who thought this was the worst kind of folly. It turned out to be, I think, a great asset to the country, not only to the area but to the country generally.

Mr. HOWARD: Yes, and you still think it is a worthwhile venture to build to Ungava Bay.

Mr. ROCK: If there are customers there.

Mr. HOWARD: No, I am not asking you, Mr. Rock, I am asking Mr. Bennett. Do you still think it is a worthwhile venture to build a railway from Schefferville to Ungava Bay?

Mr. BENNETT: Getting back to your performance bond, I could not possibly give an undertaking that we would, as you say, put up certain moneys and if we did not complete the line in 10 years these would be paid over to consolidated revenue.

Mr. HOWARD: I am only trying to help Mr. Sharp, to the best extent that I can.

Mr. BENNETT: You are doing very well.

Mr. HOWARD: I will put it to you more directly then. It would be our intention at the appropriate stage to try to work out an amendment to the bill to put that in there, and that appropriate stage is in the House. Now, the best course to follow, I think, prior to that, is to try to get some understanding as to whether or not it is agreeable, and if so, the extent to which it is agreeable, because May 14 is not too far away.

Mr. BENNETT: Well, if you are asking me now to give some undertaking that we are prepared to put up a performance bond involving a financial commitment on our part, I would have thought from the context of my remarks, that the answer is obviously, no.

Mr. HOWARD: You should not have come to ask for an extension of the bill then.

Mr. BENNETT: Why should we not have come?

Mr. HOWARD: Because you are asking the Parliament of Canada, the second time in a row, for a 10-year extension of a franchise, or a right to build a railroad, and you have not carried out the undertaking in the first 10 years, nor in the second 10 years.

Mr. BENNETT: This has been because there is no economic reason to have done this. I should point out that we and our associated companies have spent millions of dollars in exploration.

Mr. HOWARD: I am sure you have.

Mr. BENNETT: But you have to find these economic mineral deposits before you can—

An hon. MEMBER: Mr. Chairman, may I ask a supplementary to that?

The CHAIRMAN: Mr. Howard is not through with his time.

Mr. HOWARD: Since I am nearly through, I will not transgress your good judgment this time, Mr. Chairman, except to say again that when this gets to the House we hope to work out an amendment which will, in effect, put a performance bond provision in there. I am not competent to draft this in legal terms specifying the amounts or anything else, but certainly with \$100 million operation involved— which is what it is likely to be if your past experience is any guide; about half a million dollars a mile for 220 miles by its shortest route which is a fair venture of over \$100 million—it would not seem unreasonable to me to tie in a performance bond of, say, \$1 million a year with that.

Mr. BENNETT: I am not sure—again, I would defer to the experts here—but I would think in the experience of the Canadian Parliament in respect of a railway bill that this would be the first time this has ever been done. Maybe in your view there should be a first time.

Mr. CLERMONT: It is not passed yet. Even if they bring in an amendment that does not mean it will pass.

An hon. MEMBER: Certainly it would be a new departure—

Mr. HOWARD: Mr. Bennett; I quite realize that you have more friends in this Committee—

The CHAIRMAN: Mr. Bennett, you do not even have to answer that. Mr. Bell? Mr. Clermont, a little order, please. Mr. Bell?

Mr. BELL (*Saint John-Albert*): Mr. Chairman, I just want to ask one question.

Mr. CLERMONT: I am not going to take that on the chin and say nothing.

The CHAIRMAN: I would like Mr. Howard and Mr. Clermont to let Mr. Bell continue.

Mr. HOWARD: Mr. Chairman, it was Mr. Clermont who made that inane observation in the first instance.

The CHAIRMAN: Well, I have asked Mr. Clermont to desist also, Mr. Howard. Mr. Bell?

Mr. BELL: Well, I do not want to leave the questioning of Mr. Howard too one-sided. Mr. Bennett, is it not a fact that we have considered this matter of performance before, not the bond aspect of it, but when actual construction is going to go ahead. Is it not a fact that our obligations, yours and ours, as Committee members, are entirely different when there is no interest on behalf of anyone else, any other company in an area? Is this not the major difference in this case?



Mr. BENNETT: I would have thought so, yes.

Mr. BELL (*Saint John-Albert*): And in the case of B.C., which has been mentioned, and without getting into this in detail, would it probably not be a fact that there were other railways and other companies interested and that is why there was an attachment of performance to these companies?

The CHAIRMAN: Well, gentlemen...

Mr. PETERS: May I ask a couple more questions here on this bill? I notice in Chapter 80 which set up the Act to incorporate Quebec North Shore and Labrador Railway, the incorporation was asked for by Jules Timmins, Leo Henry Timmins and, I would presume, Dunlap is Hollinger as well, I am not sure about Rankin or Simard. I do not know. These people were really mining people. Certainly Jules Timmins and Henry Timmins were. Are these people still holding the incorporation of the railroad?

Mr. BENNETT: The railway originally was incorporated and owned by a company called Hollinger North Shore Explorations.

Mr. PETERS: Yes, but not in Chapter 80.

Mr. BENNETT: This was prior to the incorporation of the Iron Ore Company of Canada in 1947.

Mr. PETERS: Yes.

Mr. BENNETT: The Iron Ore Company of Canada, which includes the Hollinger Consolidated as a shareholder, Labrador Mining, which is a Hollinger company as a shareholder; when it was incorporated, it acquired the company charter from Hollinger North Shore Explorations. If your question is: is there still a Hollinger interest in the current company, the Iron Ore Company of Canada? The answer is yes, a substantial one.

Mr. PETERS: No, it really was not the question. Originally the Iron Ore Company was just a subsidiary operation, I gather. The railway, in other words, was never set up independently from the mining operations. Is this correct?

Mr. BENNETT: That is right. There would not have been any need for the railway to come to Parliament to get this charter had it not been for the fact that the railway was crossing provincial lines. This is why they had to come here in the first place. I again refer to Quebec Cartier, which is a very large operation, a 10 million ton operation in Quebec. They have a private railway. In fact it is part of the mining operation.

M. PETERS: It still is.

Mr. BENNETT: It is not a common carrier. It is for a specific purpose within the Province of Quebec.

Mr. PETERS: Yes, I am aware of that. The last part of the Act says:

The works and undertakings of the Company are hereby declared to be for the general advantage of Canada.

which means that it has to serve other ends besides the railway operation. I asked a question about whether it did or not, and you indicated that it did, but the point I was trying to ascertain is whether or not there had been any change in the railroad itself as to its purpose?

Mr. BENNETT: No. It has been changed in its purpose to this extent, that its basic purpose is hauling iron ore but it also is providing this passenger service and it is hauling northbound commodities for these communities.

Mr. PETERS: You also ask in your original bill for such things as—I know that some of these are form and they do not mean anything—but you have asked for electric and other power, telegraph and telephone, vessels, wharves, docks, warehouses, hotels, parks, motor cars, pipelines. How extensively have you gone into these fields?

The CHAIRMAN: Mr. Peters, we are dealing with the railway extension part and that is all we are dealing with in this bill and I will have to call you to order on that.

Mr. PETERS: Maybe I am not drawing the conclusion but it seems to me that this railway now has an extra function added. As I understand it, there are two or three fairly well-developed towns in that area and there are people involved in communities. In other words, your railway has opened up that area and there have been settlements taking place beyond the actual mining operation. You said they were not company towns and therefore you are not responsible for the towns. What service are you providing these towns that we have granted you under your original charter, such as telephone and—well it says parks, I know you have no pipelines; I presume you have not pipelines—you may have electric plants in the towns?

Mr. BENNETT: The railway company is not providing any of these services. I do not think it was required.

Mr. PETERS: No, no. You have the right to—

Mr. BENNETT: Why they listed these things in the original application, I would not know. I was not around in those days.

The CHAIRMAN: I think the practice is to make the objectives as wide as possible in the application you are incorporating, Mr. Peters.

Mr. PETERS: I realize this but I just was saying—do you handle your own telephone?

Mr. BENNETT: I hesitate to mention this, because I understand there are some Bell Telephone people in this room. But we have a telephone company—

Mr. PETERS: You get an awfully short—

Mr. BENNETT: No. Bell is also in the area. There are two telephone companies operating in the Wabush-Carol area, Bell and the Labrador Telephone Company.

Mr. PETERS: Do you operate hydro in that area too?

Mr. BENNETT: No, we do not. As a company we have a hydro development up at Schefferville, a small one which supplies the requirements of that mine. It has nothing to do with the railway and we have—

Mr. PETERS: Does it service the community?

Mr. BENNETT: Yes, at substantially below cost.

Mr. ROCK: What does Mr. Bennett mean when he says “we”?

Mr. BENNETT: The Iron Ore Company of Canada.

The CHAIRMAN: Well, we will move on then to Clause 1.

Mr. HOWARD: Mr. Chairman?

The CHAIRMAN: Yes, Mr. Howard?

Mr. HOWARD: Whether it is on Clause 1 does not really matter, but the only firm sort of suggestion that Mr. Bennett has made about the extension is this one of fifty miles northward to another ore body, and the time within which this may be done is unknown at the moment. You are unable to predict it.

Mr. BENNETT: I would not say it was unknown. I said that it was within our development. Unless the bottom falls out of the market, we would expect within a ten-year period to be going into this.

Mr. HOWARD: Yes. I wonder if it would be a bit more advantageous, then, all around, to confine the bill's powers of extending this right and to spell out in it to that area, rather than completely up to the Ungava district, as originally was the case in 1947, and tie it in with a different period of time than 10 years. I am thinking again of the public interest and the public concern about this and the fact that—

Mr. BENNETT: How is the public interest involved here if we do not have exclusive rights?

Mr. HOWARD: Well, you have the right to do it, and barring somebody else's obtaining a similar right, it is yours exclusively. There is no one else who can come in here unless he gets the authority from the Parliament of Canada to do it. This is my understanding.

Mr. BENNETT: If the impression is drawn here that we have some monopoly over the development of this territory, this is not so.

Mr. HOWARD: You have no monopoly over the development of the territory, but at the moment you have a monopoly on building a railroad up to Ungava.

Mr. BENNETT: No. I do not think so.

Mr. HOWARD: Well, who else has one?

Mr. BENNETT: Well, there is nothing to prevent any other group from coming here as Wabush did.

Mr. HOWARD: This is exactly what I said: subject to the Parliament of Canada making some other decision.

Mr. BENNETT: That is right. The Parliament of Canada is the supreme authority in this matter.

Mr. HOWARD: Well, I did not think there was any argument about that.

Mr. BENNETT: There is not. That is why we are here.

Mr. HOWARD: But you are in a monopoly position because you have the only right at the moment to build this railway.

Mr. BENNETT: I do not think, Mr. Howard, that that is a monopoly.

The CHAIRMAN: Mr. Howard, we have gone around this line of questioning before and I do not think much more is going to be achieved by your pushing one side and his saying no, so if we can move on—



Mr. HOWARD: We are not engaging in semantics or interpretation of words, Mr. Chairman, with Mr. Bennett, certainly not. But the company has the right to build this railroad. I am concerned about its progressing, and if the extension to the area 50 miles northward is the only firm objective at the moment, then it is my contention that we should perhaps tie the provisions of the bill into that and that alone, and if something else develops, then have a look at it at that time. And I ask Mr. Bennett whether this would be agreeable.

Mr. BENNETT: No, I think we would like to stand on what we have come here with.

Mr. HOWARD: Well, we will have to try that other course then, I guess, in the House, if we cannot get any agreement here.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, has Mr. Howard any information of anybody else being interested in this? Has the Committee's secretary received any briefs from any other interested—

The CHAIRMAN: We have received no representations whatsoever on this bill.

I think we can move on and start dealing with the bill. We are dealing with the preamble. Shall the preamble carry?

Preamble agreed to.

The CHAIRMAN: Shall Clause I carry?

Mr. PETERS: Mr. Chairman, I am of the opinion, in asking for this—and,

if within the said period the said line of railway is not completed and put in operation, the powers of construction conferred upon the Company by the Parliament of Canada shall cease and be null and void as respects so much of the said line of railway.

I am quite sure that we, as a Committee, have been interested in the whole area. I am sure that we have made, the Canadian people have made a great contribution to this railway, though it might be hard to evaluate. I am sure we have made an immense contribution to this railway and this company, and our interest should be in the lasting effect that it has on the community. I am at a real loss to indicate how that is being...

The CHAIRMAN: Do you have an amendment, Mr. Peters?

Mr. PETERS: No, I have no amendment but we are really hearing only one side of this case.

The CHAIRMAN: Well, Mr. Peters, we have no indication of any other witnesses who wish to be heard, no representations whatsoever, to myself, or to the Clerk of the Committee on this bill; so we cannot call witnesses. Shall Clause 1 carry?

Clause 1 agreed to.

The CHAIRMAN: Shall the title carry?

Title agreed to.

The CHAIRMAN: Shall I report the bill?

Agreed.

The CHAIRMAN: Shall the bill carry?

Agreed.

Mr. HOWARD: Oh, I have one objection, Mr. Chairman. I refrain from saying so. Each time you pose the question—

The CHAIRMAN: I am informed by the Clerk that there is no minority report, but I am sure you will be heard in the House, Mr. Howard, on it.

Mr. HOWARD: There is no minority report, Mr. Chairman?

The CHAIRMAN: Right. Thank you very much, Mr. Bennett.

Mr. Honey? Mr. Honey is the sponsor of Bill No. C-239. It is my intention to have the brief of the Bell Telephone Company of Canada first, so that we do not have to sit this afternoon and we have time for the brief to be presented.

Mr. BELL (*Saint John-Albert*): Would you just repeat again, Mr. Chairman, the reason why Bell wants to put this brief on the record when we know that the session will end and that it will have to be re-introduced fully?

The CHAIRMAN: Well, I discussed this matter with the representatives of Bell Telephone, Mr. Bell, and I advised them that discussion would not be heard today. I said that this is the only opportunity I could give them just to present their brief. There are other witnesses to be heard and they acceded to this wish that they wanted at least to present their brief and put it on the record.

Mr. BELL (*Saint John-Albert*): Well, I think that that is all right. I do not object to it personally. What is the reason for it?

The CHAIRMAN: Well, perhaps we can ask them when they appear.

Mr. BELL (*Saint John-Albert*): Before they present the brief?

The CHAIRMAN: Yes. Mr. Honey is the sponsor of Bill No. C-239. Mr. Honey, will you introduce the parliamentary agent on this matter? Will you introduce this delegation?

Mr. HONEY: Mr. Chairman and members of the Committee, my colleague, Mr. Blouin, has already introduced to you this morning Mr. Gorman. Mr. Gorman is also the parliamentary agent with respect to the Bell Telephone Bill No. C-239; so may I, Mr. Chairman, introduce Mr. Gregory Gorman to you and to the Committee.

The CHAIRMAN: I have just proposed to Mr. Gorman that to save him the time, I do have a list of the delegations here now that I can introduce. Mr. M. Vincent, President; Mr. A. J. Groleau, Executive Vice-President (Administration); Mr. R. C. Scrivener, Executive Vice-President (Operations); Mr. A. G. Lester, Executive Vice-President (Planning & Research) and Mr. A. J. de Grandpré, Vice-President, Law, who will I understand, be presenting the brief.

The brief has been distributed to all members of the Committee. However, as is the custom of this Committee, I have asked Mr. de Grandpré to present just a summary of his comments on the brief that was distributed, which he will do. Now, before he presents that summary, perhaps Mr. de Grandpré or Mr. Vincent can let us know the answer to Mr. Bell's question as to why you wished only to appear to present the brief, knowing that the session may end and that we may not be able to come back to it until the next session. Is that not it, Mr. Bell?

Mr. M. VINCENT (*President of the Bell Telephone Company*): We did not know, of course, that this morning would be the only session. We never did know that. But we know fairly well that the session may end within a week or two, but we had no understanding that this morning was the only opportunity to appear before the Committee.

The CHAIRMAN: Well, perhaps, Mr. Vincent, you are putting the Chair in the position of having to advise you that, to the sponsor of the bill, and I believe to Mr. de Grandpré, this information has been given. It was indicated that this was the only opportunity at this time, because there is difficulty in getting the Committee sitting, because there are other witnesses to be heard, and that it would be impossible to finish it before the session, and it would probably go into another session. This information was given to the sponsor of the bill, and also by telephone to Mr. de Grandpré, on many occasions, I believe, sir.

Mr. ROCK: Can the Chairman explain to the members of the Committee who the other witnesses are?

The CHAIRMAN: Yes, we have correspondence from the Industrial Wire and Cable Company, from Masco Electric Company Limited, from the City of Montreal and from the Federation of Mayors and Municipalities, who were to be heard. We have had difficulty, of course, in the last month or so in arriving at dates for the hearings. This was completely reported to the sponsor and to Mr. de Grandpré. In fact this meeting was called for the particular purpose of getting the Quebec Labrador Northshore Bill heard, and for the Bell Telephone Company of Canada to present its brief. This information was conveyed to your officials, Mr. Vincent, and this is why we are here. If they did not wish to appear we were never so informed.

Mr. VINCENT: Please do not misunderstand me; we are still willing to proceed. But, I did not understand personally that this was the only morning session we would have before the end of the session.

The CHAIRMAN: I trust that it may not be, but I am saying that there was no guarantee that this would not be the last meeting. But this is possible, and as I said, the information was forwarded that there would probably not be another session because the session probably ends on the first or next week some time. After Easter we come back for a continuation of the session, so I hope that after that time, more time will be available to us in order to continue with the hearings of this bill, before we prorogue.

Mr. ROCK: Mr. Chairman, I cannot agree with you—you yourself have made a decision to have four groups of witnesses heard—that we have not got time in the next two weeks to go through this.

The CHAIRMAN: Mr. Rock, if you look at the timetable—and the Chair has made himself aware of the timetable that is involved in the House—it would be impossible to continue other hearings before the Easter recess on this Bill. After we come back, I trust that we will have enough time to complete the hearings on this bill with other witnesses.

Mr. ROCK: I am happy that you are so assured we are going to have this long Easter recess, which I do not think we are going to have.



The CHAIRMAN: Perhaps, Mr. Rock, you can leave it in the opinion of the Chair as to how it should be dealt with, because I have been keeping quite informed of the timetables, to assist the Bell Telephone and other witnesses to be heard. There are some witnesses who have been out of the country who wish to be heard, and this has a bearing on the hearings of this Committee on this particular bill.

Mr. BELL (*Saint John-Albert*): Mr. Chairman, may I comment on this?

The CHAIRMAN: Yes, Mr. Bell.

Mr. BELL (*Saint John-Albert*): I think there are some points here that we have to understand because we have obligations to different groups on this legislation. First of all, I think that the Bell Telephone should appreciate that all their evidence dies if the session ends now, but that, evidently, is known now. I think that there is some advantage perhaps—

The CHAIRMAN: Not if the session ends, if we prorogue.

Mr. BELL (*Saint John-Albert*): Yes. If this Parliament, this session, ends, the evidence dies.

The CHAIRMAN: Right. Mr. de Grandpré is very well aware of that.

Mr. BELL (*Saint John-Albert*): Then, secondly—and this may be in favour of Bell's appearing this morning—I think that there could be some advantage in that there would be an exposure of their brief in some way. But, I think we have to decide how far we are going to go and what limits are on it. Thirdly, we have an obligation to other groups who may want the opportunity to rebut certain statements that Bell makes before two or three months, as it may be.

The CHAIRMAN: Well, it is the feeling of the Chair, Mr. Bell, in line with what you have said, that it would be best that the Bell brief was presented for public consumption and information so that it could be made available to the public, and those who wish to appear in opposition, in addition to those who have already notified us, would have this opportunity—

Mr. BELL (*Saint John-Albert*): Well, I have no objection to that, but I think we should decide not to get into a lot of questioning.

The CHAIRMAN: No. It was my view that we do not have authority to sit this afternoon while the House is sitting, so we could go ahead, have the brief presented, do what questioning there may be until, say, 12.30 or 1 o'clock, whenever we adjourn. If the questioning is to continue, then I know that the Bell officials are prepared to come back. I shall try to assist in every way possible to see that there are other hearings before prorogation. Now, may I have a motion that the brief, presented by the Bell Telephone Company of Canada, be printed as an appendix to our evidence and proceedings?

Mr. ROCK: I so move.

Mr. LESSARD: I second the motion.

The CHAIRMAN: It is moved by Mr. Rock and seconded by Mr. Lessard that the brief presented by the Bell Telephone Company of Canada be printed as an Appendix to the Minutes of the Evidence and Proceedings.

Agreed?

Some hon. MEMBERS: Agreed.

Motion agreed to.

Mr. A. J. DE GRANDPRÉ (*Vice President, Law, Bell Telephone Company of Canada*): Mr. Chairman and members of the Committee, as indicated to you by the Chairman, we have prepared the rather detailed brief which is now before you. But, in order to save time we shall present a summary of the information about the company which will permit a better understanding of the bill itself.

Bell now carries on its business directly in Ontario and Quebec. In addition, it has substantial interests in telephone companies in Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island. Communications services are also being provided by this Company in Labrador and many parts of the Northwest Territories. Bell does not supply telephone service in any of the Western Provinces or British Columbia.

In Canada, there exists, however, the Trans-Canada Telephone System of which Bell is a member. Bell works in cooperation with the other communications companies through the Trans-Canada Telephone System and the Telephone Association of Canada to permit Canadians to have rapid communications throughout all parts of this country. World-wide communications are provided in close cooperation with Canadian Overseas Telecommunication Corporation and foreign systems.

In order to further Canada's communications links with the outside world, Bell belongs through the Telephone Association of Canada to the International Telecommunication Union, an agency of the United Nations. These arrangements result in Canadians being on the main line of world communications.

Bell is controlled by residents of Canada. The shares are widely held and no individual or group is in a position to control the Company. To be specific, 97.8 per cent of its shareholders are resident in Canada and they hold 94.6 per cent of the outstanding shares. The American Telephone and Telegraph Company of the United States now owns only 2.2 per cent of Bell Canada's stock.

On the last page of the brief that you have before you, we have prepared an exhibit, No. 4, which shows the distribution of capital stock in the Company. You will see that all provinces are represented, and that the foreign interests are limited to 2.2 per cent.

Bell therefore is truly a Canadian company, owned and operated by Canadians. Revenues received by Bell for its services, plus the investment of capital required by the Company, flow back into the Canadian economy in many ways, providing important support and stimulus. Bell's 40,000 employees live throughout its territory, and most of the 20,000 employees of its wholly-owned subsidiary, Northern Electric, are employed in nine major plants in Bell territory, and the remainder in other Canadian provinces. Some 5,200 Canadian suppliers, who provide Northern with 95 per cent of its materials, plus other direct suppliers to Bell, provide employment for a further 15,000 to 20,000 people. Thus the total employment provided by the Bell-Northern complex, and the resultant flow of wages, becomes an important segment of the economy.

Bell's ownership of Northern and the resultant integration of research, manufacturing and operations assist in providing Bell's subscribers with

economical telecommunications service of high quality. The ownership or integration of manufacturing facilities has been found to be an essential requirement for the provision of good service by such companies in the United States as American Telephone & Telegraph Company, General Telephone and Electronics, Continental Telephone, and International Telephone & Telegraph Corporation.

The Act of Parliament which created Bell was enacted in 1880. Since that time, eleven amendments have been passed to keep the capital and powers of the Company up to date and to maintain suitable governmental supervision over the Company. In addition to the control exercised by Parliament, the Company has been made subject to the regulatory procedures of the Board of Transport Commissioners for Canada.

Under the new Transportation Bill, although the regulatory body is substantially changed, the basis of regulation is to remain basically the same.

The last amendment to the Charter was made in 1965 when the Company was authorized to increase the number of directors from 15 to 20. The last bill affecting the Company's capital was passed in 1957.

Since the end of World War II capital increases have been under review and authorized by Parliament approximately every decade. In 1948, the authorized capital was increased to \$500 million, the estimate being that such increase would be sufficient for a period of 10 years. The forecast proved somewhat conservative and in 1957 Parliament approved the present capitalization of \$1,000 million. Late in 1966, it became evident that we could not safely wait any longer for additional capital authorization. In fact present Company forecasts indicate that the presently authorized capital will be virtually exhausted by the end of 1968.

Now what are the objects of the Bill?

The Bill basically asks that increased capital be authorized and that Bell be permitted, with the consent of the shareholders, to issue preferred stock as and when necessary. It also asks that the regulatory supervision be changed slightly and that its charter be modernized in several respects. These requested changes are designed to enable competent management to keep Bell Telephone in step with the times. I do not think it is necessary to comment much further on the necessity of communications in Canada. The country has had several communications problems in the past, and they have been solved through waterways, railways, airlines, super highways and communications of all sorts.

The communications needs of Canadians undergo constant and rapid evolution, and the pace is quickening. The satisfaction of particular Canadian requirements, with modern systems and equipment of uniformly high quality, at reasonable cost, requires a degree of integration in research, supply and service operation which it would be impossible to achieve without the unity of purpose and objectives that is assured by Bell ownership of Northern Electric.

Furthermore it is essential to have access to research and development.

For many years Bell depended upon the Bell Telephone Laboratories—

in the United States

—for fundamental and applied research and obtained this information through the service agreement with the—



### American Tele and Tele.

While still maintaining this association, a most valuable one because it gives access to a vast fund of operating experience and to such developmental projects as the electronic office, Bell found that it was necessary to do some research into materials and devices peculiar to Canadian situations. Consequently, Northern research was greatly expanded by establishing a new laboratory on the outskirts of Ottawa. This is one of the largest research centres in Canada employing over 800 people. Other locations add 650 for a total of 1450 people. These laboratories do application and design research employing Canadian scientists and ensuring that Canadian sources of materials, which contribute 95 per cent of Northern's requirements for its manufactured products, can be maintained and expanded. This activity, essential to preserving the high quality of Canadian communications, required, in 1966, the expenditure of more than \$25 million.

I have indicated that the capital of the company was increased about ten years ago, and it would be interesting to have a look at the capital expenditures or construction expenditures made by the company during the period 1957 to 1966. At page 8 of the brief:

Since 1957, with the authorized increase and other financial resources available to the Company, Bell spent about \$2,000 million on buildings, equipment and materials.

This money was spent for three purposes; for growth, for improvements and for standing still. The bill gives some statistics about the growth experienced during the ten-year period ending in December 1966, and it also indicates what improvements were added to the system. The standing still expenditures are made necessary because of the movement of the population or the widening of roads and highways, forcing the company to move its equipment in order to give continued service. But, by and large, these expenses do not add to the company's revenues. While the company looks at these various projects that are submitted by the engineers, it has to make a selection and to keep very adequate cost controls. Therefore, as stated at page 16:

The Directors and Company management must approve each major capital expenditure and all capital expenditures are studied in much greater detail by engineers who determine the feasibility of all projects. A typical construction programme for one year may contain over 1300 projects each involving over \$10,000 expenditure, as well as many thousand smaller ones. Each of these projects is planned in detail and implemented in a manner to ensure that it is compatible with long-range plans and objectives of the Company.

Further, at page 20:

Evidence that Bell's policies are in fact beneficial to the development of telecommunications services may be found in figures of actual usage and comparisons of value. The number of telephones per 100 population in Bell's territory has increased from 33.5 in 1956 to 42.7 in 1966. While these figures indicate that a very high percentage of households have telephone

service—Canada is among the highest countries in the world—the real value is determined by the hours of work required to pay for telephone service. Based on a recent study the number of hours an employee in manufacturing would have had to work to pay for a residence individual line for one month in the world's major cities—

gives the following results. An average in 17 cities in Ontario and Quebec gives 2.10 hours of work for one month, residential individual line service. An average in 56 cities in the United States shows the result of 2.15; in Stockholm, 2.33; in London, 4.56; in Rome, 4.76 and in Paris, 15.84. In relative terms, the service in Bell territory is the cheapest. As stated at page 21:

It is clearly evident that North Americans obtain their telephone service at a far lower price than subscribers in other parts of the world. Moreover, during the period 1945-1966, the price of local telephone service, as expressed in equivalent hours of work for these 17 cities in Ontario and Quebec has come down steadily from 4.75 hours in 1945, to 2.10 hours of work in 1966.

The price change for long distance service is no less dramatic, as is shown by the following table:

The consumer price index in 1956 stood at 118.1 while in 1966 it stood at 143.9, but the long distance charge for a three minute "anyone" call, day rate, between Montreal and Vancouver changed from \$4.40 in 1956 to \$3 in 1966; Montreal and Toronto, \$1.80 in 1956 as compared to \$1.30 in 1966; Ottawa and Quebec, \$1.40 in 1956 and \$1.10 in 1966. Therefore, as stated at page 21:

As is evident from these data, both the development of service and its real value are of a very high order in the territory that Bell serves.

The capital expenditures that will be made during the period 1967 to 1976 will be for the same purposes, namely, growth, improvements and for standing still, of course. Let us take the expenditures for growth. You will note at page 22:

Population of the provinces of Ontario and Quebec, comprising the major field of operations of the Bell Company, has grown from 10.4 million in 1957 to 12.6 million in 1966—an increase of 21 per cent in 9 years or 2.1 per cent per year. An average rate of growth of about 2.3 per cent per year is forecast through the next decade, resulting in a further increase to about 16 million people in the two provinces in 1976.

Telephones served by Bell have increased by 2,102,000 for the 10 years 1957-66 inclusive. Telephones per 100 population have grown from 33.5 to 42.7 in the same period, and the growth rate has been increasing during the last few years. For the future, we are forecasting a growth of 3.2 million telephones for the decade 1967-76, giving a total of about 8 million telephones served by the Company by 1976.

Now, for improvements—I do not intend to spend too much time on this aspect—I would like to mention the Touch-Tone unit, the use of electronic switching and all the other more sophisticated equipment which will be installed during the next decade. The total construction program for the period ending in

1976 according to present estimates should total approximately \$4,350 million. Referring to page 26:

For a better understanding of these requirements—

of \$4,350 million for the next decade—

—we have prepared Exhibit I, which—

appears after the brief at page 67. If you look at the total requirements of \$4,350 million for construction expenditures and at the other requirements of \$400 million you have a total of \$4,750 million representing the total requirements during the period. In order to finance these requirements, the following resources are available, namely, depreciation and salvage for a total of \$2,150 million, and other resources such as retained earnings of \$300 million, totalling \$2,450 million, leaving a net requirement of \$2,300 million to be financed externally. The company has endeavoured over the years to maintain a debt ratio approximating 40 per cent. Assuming a similar debt ratio approximating 40 per cent, \$1,000 million will be financed through bonds and the balance of \$1,300 million will be financed through equity. This is shown in Exhibit 1. This total requirement of \$1,300 million represents approximately 30 million shares, depending of course on the market value of the shares and the issue price of these shares, but from experience I think it is safe to say that the 30 million number is just about adequate. The par value of these shares, being fixed at \$25, accounts for the increased authorized capital of \$750 million, as proposed in clause 2 of the bill. I think it is important to keep this increase of \$750 million in perspective, and for this reason we have prepared Exhibit No. 2 which immediately follows Exhibit No. 1 in the brief. You will note that the original act of incorporation in 1880 authorized capital to the amount of \$1 million. Since then the authorized capital has been increased in the amounts as indicated in the first column on the left hand side. In the right hand column of the table, the percentage increase of each successive change is shown. For instance, at one time it was increased by 100 per cent, in 1948 it was increased by 233 per cent and in 1957 it was increased by 100 per cent.

The last exhibit to which I have not yet referred, is Exhibit No. 3 and deals with the ownership at December 31, 1966.

Mr. PETERS: In Exhibit No. 2, is it right to say that the increase has actually been \$1,750 million since 1880?

The CHAIRMAN: Since 1880?

Mr. DE GRANDPRE: Since 1880.

The CHAIRMAN: Continue with the brief, and we will question you later.

Mr. DE GRANDPRE: Line 1 of Exhibit No. 3 shows that the telephone plant of the company had a value of \$2,748,867,000 with a depreciation of \$667 million, leaving a net telephone plant of approximately \$2 billion.

We have issued mortgage bonds to the extent of \$944 million, leaving a balance of \$1,136,000,000 which appears below line 4 of the exhibit.

The investment in subsidiaries and the net of other assets and current and deferred liabilities amount to \$188 million, which appears on line 5 of the exhibit. Therefore this brings the total net assets to \$1,324,000,000. This is the



shareholders' equity at the end of December, 1966. It is comprised of the par value of 34,075,000 shares at \$25 each. This amounts to \$851 million. Over and above the par value, there is a premium of \$341 million, plus retained earnings of \$131 million, for a total of \$1,324,000,000. This concludes the summary of the background material that is represented by the first 40 pages of the brief, the balance of the brief being directed at an analysis of the proposed amendments, clause by clause, Mr. Chairman.

The CHAIRMAN: Mr. de Grandpre, on that summary, have you any additional material in there, or is it just taken out verbatim from your brief?

Mr. DE GRANDPRE: Some parts are.

The CHAIRMAN: I wonder if you would then be kind enough to forward to us copies of your summary so that we can have them distributed to members of the Committee.

Mr. DE GRANDPRE: With pleasure, Mr. Chairman.

The CHAIRMAN: I think this information is necessary so members can peruse it.

We will not be able to sit this afternoon because we do not have any order from the House to do so. There are 9 other Committees sitting this afternoon; therefore, it will be impossible for us to sit. It is my intention to commence questioning, if you wish to do so now, or we could commence questioning as soon as I can obtain a date and then we could recall the officials of the Bell. I am in the hands of the Committee on this.

Mr. ROCK: I would like to ask a question. I will not refer to the brief page by page, because I have taken some notes.

You state in your brief that the Bell employees and pensioners hold 9 per cent of the shares. Are there many other shares owned by former employees of the Bell or say Northern Electric?

Mr. VINCENT: The 9 per cent includes the pensioners—employees and pensioners.

Mr. ROCK: Yes, but beyond that, the other shareholders, are there many—

Mr. VINCENT: You mean someone who may have been with the company for five or ten years and who may be a shareholder? No, this would not be included in that 9 per cent. This would just be with the other shareholders.

Mr. ROCK: Are you aware that there are many former employees who still own these shares?

Mr. VINCENT: There must be; I know some, but I could not tell you to what extent.

Mr. ROCK: You have intentions of issuing bonds and also preferred shares. Do you want to reclaim bonds by preferred shares in the future?

Mr. VINCENT: We have no intention of using preferred shares, but we would like to have flexibility to do so at some future date, if it seems desirable. But we would like to keep the simple capital structure which we have now, which is first mortgage bonds and common stock. All we are asking in the charter is to have the flexibility at some time in the future, if it seems desirable, to also issue preferred shares.

Mr. ROCK: What I would like to know, then, is: if you have intentions of doing that and if you do so, would you not then continue to issue a bond? In other words, you would have preferred shares rather than bonds.

Mr. VINCENT: We would also use bonds and common shares, but we would seek the power to also issue preferred at the same time as a third class.

Mr. ROCK: That is all, Mr. Chairman, for now.

(Translation)

Mr. ÉMARD: Mr. Chairman, I have two brief questions. In what year was the "Northern Electric" incorporated?

Mr. VINCENT: I think it was in 1914 or 1915, we will see.

Mr. DE GRANDPRÉ: The 5th of January, 1914.

Mr. ÉMARD: In what year did you establish the "Bell Line" in Ottawa?

Mr. VINCENT: In 1958.

Mr. ÉMARD: I have other questions later on, I hope that when the witnesses come back I will be able to put them, but not today.

(English)

Mr. ROCK: Mr. Chairman, I would like to ask a supplementary question to Mr. Émard's question about the Northern Electric being incorporated in 1914. Where then, previously to this, did the Bell purchase their material to install the services?

Mr. VINCENT: Well, it was always from the same source. Actually, Northern was a department of Bell at the very beginning, and then it was formed into a separate organization, which did not start with the name of Northern Electric. It was called Imperial Wire and Cable and was incorporated as a separate organization after Northern became a separate company, rather than a department of Bell. We had a manufacturing department at the beginning.

Mr. ROCK: The Bell Telephone always manufactured most of their products that they used from the beginning of their incorporation from 1880 and on?

Mr. VINCENT: When you say 1880 you are going quite far back there, and I do not know if this was the first year they did, but away back it was manufactured by Bell as a department of Bell.

Mr. ROCK: I guess in those days, it would have been more or less impossible to purchase this material from someone else, because I do not think anyone else manufactured it except the Bell.

Mr. VINCENT: I would imagine so. You are taking me back to 1880 now and I am not too sure of that, but I assume that that is so.

Mr. PASCOE: Mr. Chairman, on page 18 I am interested in the comments in regard to buried telephone wires. You say:

Our investment in buried and underground plant has increased 60 per cent in the past five years.

Is that just new equipment, or are you taking down some of the old telephone poles and wires?

Mr. VINCENT: Both.

Mr. PASCOE: Are there any municipal by-laws that require you to do this, or are you just doing this on your own?

Mr. VINCENT: I suppose that in some municipalities when we tried to get a permit, they might stipulate that, but in the end, it is the Board of Transport Commissioners who have the authority if there were any disagreement between the municipality and ourselves, but I do not recall very many cases where we have had to go to the Board. It is our policy now to bury all plants.

Mr. PASCOE: Is there an additional cost in burying?

Mr. VINCENT: There is, but that may vary. The additional cost is particularly in the smaller places, not so much in the big places. In big places we could justify it, but it is very difficult to bury every single wire. The additional cost would be more in a large number of small places. There is no problem in burying the plants in the large places.

Mr. REID: Mr. Chairman, I would just like to know if it would be possible for our Clerk to provide us with copies of the various acts concerning the Bell Telephone Company. The original Act was passed in the 1880's, and it has been amended subsequently, and I think it would be useful if we had this.

The CHAIRMAN: We will have them for the next meeting, Mr. Reid. Are there further questions?

I understand from many members of the Committee that they wish to continue questioning at the next meeting. This will give them time to digest certain parts, and then we can contact other witnesses who wish to be heard. We had intended sitting this afternoon; however, we would have to obtain an order from the House to do so. Since there are some 9 or 10 other committees meeting this afternoon, I would think we would initiate some great debate in the House which all parties would not want.

Please accept our apologies for not having you this afternoon. I will try my best to obtain another date, next week if possible, and if not, then right after the Easter recess to continue the questioning of Mr. Vincent. I will speak to Mr. de Grandpré on that matter.

We will now adjourn to the call of the Chair.



## APPENDIX A-44

## AN ACT RESPECTING THE BELL TELEPHONE COMPANY OF CANADA

## BILL C-239

## BRIEF SUBMITTED BY THE COMPANY

## THE COMPANY

The Bell Telephone Company of Canada was incorporated by Special Act of Parliament in 1880 by Chapter 67 of the Statutes of 1880. Bell now carries on its business directly in Ontario and Quebec. In addition, it has substantial interests in telephone companies in Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island. Communications services are also being provided by this Company in Labrador and many parts of the Northwest Territories. Bell does not supply telephone service in any of the Western Provinces or British Columbia.

In Canada, there exists, however, the Trans-Canada Telephone System of which Bell is a member. Bell works in cooperation with the other communications companies through the Trans-Canada Telephone System and the Telephone Association of Canada to permit Canadians to have rapid communications throughout all parts of this country. World-wide communications are provided in close cooperation with Canadian Overseas Telecommunication Corporation and foreign systems.

In order to further Canada's communications links with the outside world, Bell belongs to the International Telecommunication Union, an agency of the United Nations. These arrangements result in Canadians being on the main line of world communications.

Bell is controlled by residents of Canada. The shares are widely held and no individual or group is in a position to control the Company. To be specific, 97.8 per cent of its shareholders are resident in Canada and they hold 94.6 per cent of the outstanding shares. The American Telephone and Telegraph Company of the United States now owns only 2.2 per cent of Bell Canada's stock.

Bell therefore is truly a Canadian company, owned and operated by Canadians. Revenues received by Bell for its services, plus the investment of capital required by the Company, flow back into the Canadian economy in many ways, providing important support and stimulus. Bell's 40,000 employees live throughout its territory, and most of the 20,000 employees of its wholly-owned subsidiary, Northern Electric, are employed in nine major plants in Bell territory, and the remainder in other Canadian provinces. Some 5,200 Canadian suppliers, who provide Northern with 95 per cent of its materials, plus other direct suppliers to Bell, provide employment for a further 15,000 to 20,000 people. Thus the total employment provided by the Bell-Northern complex, and the resultant flow of wages, becomes an important segment of the economy.

Bell's ownership of Northern and the resultant integration of research, manufacturing and operations assist in providing Bell's subscribers with

economical telecommunications service of high quality. The ownership or integration of manufacturing facilities has been found to be an essential requirement for the provision of good service by such companies in the U.S.A. as American Telephone & Telegraph Company, General Telephone, Continental Telephone, and International Telephone & Telegraph Corporation.

The Act which created Bell was enacted in 1880. Since that time, eleven amendments have been passed to keep the capital and powers of the Company up to date and to maintain suitable governmental supervision over the Company. In addition to the control exercised by Parliament, the Company has been made subject to the regulatory procedures established under the Railway Act. Regulation has therefore been a function of the Board of Transport Commissioners for Canada. Regulation includes the power to "fix, determine and enforce just and reasonable rates" as well as to regulate the Company in other respects. Under the new Transportation Bill, although the regulatory body is substantially changed, the basis of regulation is to remain basically the same.

As Bell is a company incorporated by Special Act, changes in its Charter must be authorized by Parliament. The last change was made in 1965 when the Company was authorized to increase the number of directors from 15 to 20. The last bill affecting the Company's capital was passed in 1957.

Since the end of World War II capital increases have been under review and authorized by Parliament approximately every decade. In 1948, the authorized capital was increased to \$500 million, the estimate being that such increase would be sufficient for 10 years. The forecast proved somewhat conservative and in 1957 Parliament approved the present capitalization of \$1,000 million. Late in 1966, it became evident that we could not safely wait any longer for additional capital authorization. In fact present Company forecasts indicate that the presently authorized capital will be virtually exhausted by the end of 1968. The need for planning of construction programmes and financing well in advance prompts the Company's petition at this time.

Before discussing the Private Bill clause by clause, we would like to comment on some aspects of Bell's operations as they relate to the proposed Bill.

### THE OBJECTS OF THE BILL

The bill basically asks that increased capital be authorized and that Bell be permitted, with the consent of the shareholders, to issue preferred stock. It also asks that the regulatory supervision be changed slightly and that its charter be modernized in several respects. These requested changes are designed to enable competent management to keep Bell Telephone in step with the times.

### THE NECESSITY OF COMMUNICATIONS

Rapid and reliable communications are an essential element in the economic development of a country and today are almost a necessity in the everyday life of its people. Canada has special communication problems because of its extensive geographic areas and the heavy concentration of population near its southern boundary. Its economic development was greatly assisted however, first by the waterways and canals that provided access to the interior and then by the railways, airlines and highways that spanned the continent from the Atlantic to

the Pacific Oceans. Telecommunications, starting from relatively modest proportions at the turn of the century, are now available to virtually everyone across this vast land and are an integral part of the communications system. The Bell Telephone Company has played a major role in the development of the telecommunications network. It has been Bell's continuing objective to provide the territory which it serves with the most modern, reliable and adequate telecommunications services at reasonable cost. Bell has also given extensive assistance and the benefit of its long experience to the development of the Trans-Canada System's telecommunications network.

It is essential to the country's well being that its communications be maintained both in quality and design to meet the continued demands placed upon them. It would for example, be very difficult to visualize how Ottawa, the hub of the nation, could function adequately without high quality communication service. The requirements for the administrative processes of Government, for National Defense and international relations, as well as those for the business and social functioning of the community have been anticipated and provided by Bell.

The communications needs of Canadians undergo constant and rapid evolution, and the pace is quickening. The satisfaction of particular Canadian requirements, with modern systems and equipment of uniformly high quality, at reasonable cost, requires a degree of integration in research, supply and service operation which it would be impossible to achieve without the unity of purpose and objectives that is assured by Bell ownership of Northern Electric. If Northern were owned by others, or if ownership were shared, the essential unity would be lacking.

Furthermore it is essential to have access to research and development. For many years Bell depended upon the Bell Telephone Laboratories for fundamental and applied research and obtained this information through the service agreement with the A.T. & T. Co. While still maintaining this association, a most valuable one because it gives access to a vast fund of operating experience and to such developmental projects as the electronic office, Bell found that it was necessary to do some research into materials and devices peculiar to Canadian situations. Consequently, Northern research was greatly expanded by establishing a new laboratory on the outskirts of Ottawa. This is one of the largest research centres in Canada employing over 800 people. Other locations add 650 for a total of 1450 people. These laboratories do application and design research employing Canadian scientists and ensuring that Canadian sources of materials, which contribute 95 per cent of Northern's requirements for its manufactured products, can be maintained and expanded. This activity, essential to preserving the high quality of Canadian communications, required, in 1966, the expenditure of more than \$25 million.

#### CAPITAL EXPENDITURES—1957-66

Since 1957, with the authorized increase and other financial resources available to the Company, Bell spent about \$2,000 million on buildings, equipment and materials. It is estimated that the authorization now requested will assist us to finance plant expansion for about the next ten years. It is also expected that the money will be spent for much the same purposes as in the past.



*For Growth*

As may be expected, in view of the population growth, in the past decade the main purpose for which capital was required, amounting to 60-70 per cent of the \$2,000 million expended, was to provide service for new subscribers and increased use of services by existing subscribers.

Bell's acceptance of its role in providing communication service is identified in its service policy which is to provide the best possible service at the lowest possible cost, consistent with fair treatment of its shareholders and employees. We must, therefore, be ready to furnish the wide variety of modern services required to meet demand, wherever and whenever the demand occurs.

Bell has endeavoured to meet the requirements for service in all parts of its territory, in the densely populated cities and towns, in the villages and rural areas and in the more remote parts of our Northern frontier. We have not been satisfied to merely link these areas together but have striven to provide not only a service that meets the growth of households and business and the requirements of rising living standards but also service improvements and new services to meet the demands of the public. The various channels of communication, so essentially a part of everyday living, are now open to all who require them and with few exceptions at the time and place chosen by the customer.

In the 10-year period ending December 1966, the number of telephones in service increased from 2,766,000 to 4,868,000. Telephones gained each year increased from 192,000 in 1957 to 285,000 in 1966. Long distance messages, despite the elimination of many thousands of calls by Extended Area Service, increased from 123 million to 206 million. Annual construction expenditures increased from \$177 million to \$293 million. Total investment in plant, i.e. buildings, poles, wire and cable, central office equipment, telephone sets, etc., increased from \$1,066 million to \$2,749 million.

Growth of telephone service is not just a simple matter of adding a few more miles of cable and increasing the switching facilities in central offices. To meet growth in the past decade has also meant solving a wide variety of communications problems. The annual report to shareholders for 1965 gave a description of the accomplishments in that year and made some reference to expenditures for certain service situations encountered in the past few years which are quite typical of the work that has been done to serve customers adequately. The following paragraphs are quoted therefrom.

"Much was accomplished in 1965. Individual and two-party services were made available in 255 localities which previously had only multi-party service as the standard offering. Many local calling areas were enlarged, and 16 exchanges were converted to dial. More than 99 per cent of the Company's telephones are now dial-operated, and conversion of the remainder is planned for the near future. In the five years from 1960 through 1964, the Company spent \$136.1 million on service improvements in non-urban areas, and it plans to invest even more in the next five-year period. Telephone service was extended into additional sections of northern Canada. Four exchanges were opened in Labrador, one in northern Quebec at Deception Bay, and one in the District of Franklin. Also, five new exchanges were opened in the District of Keewatin, where access to the telephone network is provided in cooperation with the Manitoba

Telephone System. Across Ontario and Quebec, where most of the Company's operations are concentrated, three people in four live in cities or the surrounding complexes of suburban communities. In 1965, the Company broadened further the scope of service in a number of these important locations."

### *For Improvements*

As mentioned above, the urbanization of formerly rural areas has been a continuing feature of exchange service development. Rural subscribers have benefitted in three ways; by being included within the boundaries where individual service was available, by a reduction in the number of parties with whom service is shared on the same line to an average of 5 parties and by the dial conversion programme which has left less than 1 per cent of our telephones on a manual basis.

Indicative of the increased value of exchange service to all customers is the fact that over 73 per cent of our exchanges and almost 95 per cent of our customers now enjoy the privilege of calling one or more adjacent exchanges with the cost included in the flat monthly rate for local telephone service.

Continuous efforts have been made to improve transmission and it is now possible to converse over the telephone to any point with as much ease as a face-to-face conversation across a desk.

Among other improvements in long distance service it is worth mentioning that the Trans-Canada microwave system became a reality in 1958 and that since then the network has been expanded greatly both in Bell Canada territory and across the nation.

Technological developments have also made it possible to extend the communications network to include many places in the more northern parts of Ontario and Quebec and to points over 600 miles north of the Arctic Circle.

As the public's requirements for communication keep changing, the Company working with the Bell Laboratories and the Northern Electric Laboratories, tests and uses technological developments to keep pace with this changing demand. This resulted in the development of mobile service to automobiles and trucks on city streets and highways, of Bellboy service for paging individuals and of various types of radio links into more northerly settlements.

New types of services which did not exist in 1957, such as Wide Area Telephone Service, Telpak, TWX, and Centrex were also introduced and have grown substantially.

New and more convenient forms of telephone sets and other subscribers' equipment were developed—Princess sets, Business Interphones, Bellboy units, the new Touch Tone sets and Call Directors are examples of a steady stream of instruments to meet demonstrated public need.

### *For Standing Still*

Another essential part of the capital expenditure programme was that associated with items which we classify as "standing still". These projects add no revenue, but must be done to continue to give service to existing subscribers. This work constituted about 20 per cent of the construction expenditures. About



three-quarters of it has to do with movement of customers from one location to another. To gain 285,000 telephones in 1966, we installed 1,265,000 and removed 980,000 a ratio of 4.4 installations per telephone gained. We are dealing with a mobile population, which is becoming even more mobile. Also included under the "standing still" heading are projects involving relocation of plant due to highway and street construction work.

Where growth and movement of subscriber services exist, there is a continuing opportunity to make use of the newer developments to increase the value and reliability of telecommunications service.

### SELECTION OF PROJECTS—COST CONTROLS

In no previous 10-year period has the Company experienced a pace of technological change which has produced such a variety of new offerings designed to improve efficiency, productivity and convenience and meet increasingly complex communications needs whether in the fields of voice, data or facsimile.

Bell management has been faced with many problems presented by this technological explosion and has endeavoured to select from among the many choices available, those developments which would cause minimum changes to existing plant and produce operating efficiencies. Where plant has, however, become inadequate, worn out or inefficient it has been replaced with modern plant. We are currently completing a program, actually started in 1924, of replacing local manual with dial service.

New devices have been selected that would add to the value and reliability of service and at the same time keep the price of service at the lowest possible level. This process of selection goes on continuously and management must, with the financial resources available, determine an economical balance between the amount of capital expenditure that is required for growth and other necessary expenditures and the amount for modernization. In all such allocations, an effort is made to use the products of technological research to improve the value of service and reduce its maintenance and operating costs.

The Directors and Company management must approve each major capital expenditure and all capital expenditures are studied in much greater detail by engineers who determine the feasibility of all projects. A typical construction programme for one year may contain over 1300 projects each involving over \$10,000 expenditure, as well as many thousand smaller ones. Each of these projects is planned in detail and implemented in a manner to ensure that it is compatible with long range plans and objectives of the Company.

An example of such decisions on modernization would be the introduction of dial operation of long distance calls by operators which was started shortly after the War and, then starting in 1956, the direct distance dialing of such calls by subscribers. This has been expanded to the point that, at present, 50 per cent of all toll calls are now dialed by subscribers, with the added speed and convenience that this method provides.

The switching equipment used to provide local dial service has also been modernized and in place of the older step-by-step equipment new switching centres and most extensions are now of the cross-bar type which is more flexible and has improved maintenance features.



The first electronic switching office in Canada, and indeed one of the first anywhere, has been installed in Montreal, and is now working, ready to provide service. Electronic switching opens up great opportunities for trouble free, reliable operation, with wide possibilities as to new types of service. As these become identified, the equipment will be modified to cope with them by reprogramming, as for a computer.

### RELIABILITY OF SERVICE

Freedom from service interruption is another quality that is constantly being improved. Measures being taken include increased use of buried plant, gas filled cables to prevent water damage, automatic testing equipment and emergency power supplies from diesel-driven generators. Other measures to counter the interruptions due to accidents, storms, floods, fires, explosions, sabotage and war are built into the overall network, for example, multiple cable entrances in key locations, by-pass routes around large built-up areas, and the use of alternate switching centres.

The wisdom of the Company's policies was amply justified during the very extensive power failure in 1965 which blacked out most of southern Ontario but did not disrupt telephone service. The sleet storms of 1959 in Ontario and 1961 in the Montreal area are other cases in which Bell's protection of service practices have maintained essential communications and greatly reduced service disruption.

Company construction activities are planned with community appearance and public preference in mind. Wire and cables are placed underground wherever physical and economic conditions permit. Our investment in buried and underground plant has increased 60 per cent in the past five years. Of the total outside plant, about half—representing more than \$400 million—is now underground. Working in close cooperation with architects and builders, we are also placing more and more wire and cable within walls of homes, apartments and office buildings during construction, to improve appearance and facilitate telephone installation.

### THE PRICE OF THE SERVICE IS REASONABLE

In considering the capital expenditure over this past decade it is also useful to assess the value of the programme from the subscribers' viewpoint.

Like all other businesses, the telephone company has been faced in the years since World War II with rapidly rising labour rates, shortages of skilled labour and increasing capital costs for both debt and equity capital. The problems have been accentuated by the rapid growth in demand and competition, against a background of regulated rates.

The existence of these factors in the operating climate gave added urgency to the need to spur the development and application of cost control devices and techniques. Predominant among these have been various forms of automation without which the continuing growth and modernization of the industry would have been impossible. Indeed, without these new methods and devices, costs and in turn prices would have risen to a point where growth and progress would

have been hampered to the detriment of consumers, businesses and the economy as a whole.

Evidence that Bell's policies are in fact beneficial to the development of telecommunications services may be found in figures of actual usage and comparisons of value. The number of telephones per 100 population in Bell's territory has increased from 33.5 in 1956 to 42.7 in 1966. While these figures indicate that a very high percentage of households have telephone service—Canada is among the highest countries in the world—the real value is determined by the hours of work required to pay for telephone service. Based on a recent study the number of hours an employee in manufacturing would have had to work to pay for a residence individual line for one month in the world's major cities is as follows:

	Hours
Ontario and Quebec	
(Average of 17 Cities) .....	2.10
United States	
(Average of 56 Cities) .....	2.15
Stockholm .....	2.33
London .....	4.56
Rome .....	4.76
Paris .....	15.84

It is clearly evident that North Americans obtain their telephone service at a far lower price than subscribers in other parts of the world. Moreover, during the period 1945-1966, the price of local telephone service, as expressed in equivalent hours of work for these 17 cities in Ontario and Quebec has come down steadily from 4.75 hours in 1945, to 2.10 hours of work in 1966.

The price change for long distance service is no less dramatic, as is shown by the following table:

	1956	1966
Consumer Price Index .....	118.1	143.9
Long Distance Charge for a 3-minute "anyone" Call, Day Rate		
Montreal-Vancouver .....	\$4.40	\$3.00
Montreal-Toronto .....	\$1.80	\$1.30
Ottawa-Quebec .....	\$1.40	\$1.10

As is evident from these data, both the development of service and its real value are of a very high order in the territory that Bell serves.

#### CAPITAL EXPENDITURES—1967-1976

Over the next 10-years, the period during which the additional authorized capital will be utilized, the pattern is expected to follow that of the past decade and we will continue to experience accelerating technological change.

Telephone service, which is rapidly broadening into complete telecommunications service, is now, and will increasingly become, woven into the fabric of

our Canadian society. The sheer size of the country, the growth in population, the gravitation towards urban life, the increased standard of living, the greater development and sophistication of business—all of these point to more and more varied telecommunication needs.

In attempting to forecast what might happen in the future, we study past and current trends, and modify them by judgment as to new factors, particularly new technological factors which may affect that future.

#### *For Growth*

There have been a number of comprehensive studies of population growth made by various agencies in recent years. Population of the provinces of Ontario and Quebec, comprising the major field of operations of the Bell Company, has grown from 10.4 million in 1957 to 12.6 million in 1966—an increase of 21 per cent in 9 years or 2.1 per cent per year. An average rate of growth of about 2.3 per cent per year is forecast through the next decade, resulting in a further increase to about 16 million people in the two provinces in 1976.

Telephones served by Bell have increased by 2,102,000 for the 10 years 1957-66 inclusive. Telephones per 100 population have grown from 33.5 to 42.7 in the same period, and the growth rate has been increasing during the last few years. For the future, we are forecasting a growth of 3.2 million telephones for the decade 1967-76, giving a total of about 8 million telephones served by the Company by 1976.

The other basic factor in Bell's growth is long distance telephone traffic. We expect Extended Area Service to continue its popularity but, despite its growth, we are forecasting an increase in toll messages at an average annual rate of 7 per cent. This compares with an average of 6 per cent annually for the last 10 years.

#### *For Improvements*

These are the basic services, but a wide variety of other items will fill the increasing requirements of the public for complete telecommunications service. The Touch-Tone unit—perhaps the most important telephone innovation since the dial—is also a data input device, and opens the door to use of the whole telephone network as a data transmission as well as a voice transmission medium, facilitating placing of orders, enquiries to business machines, etc., both by the busy housewife and the executive. More sophisticated instrumentalities will be used by business firms for high speed data transmission between computers, as part of the computer revolution in business information systems which is underway. An important step will be the establishment of a message switching data service by the Trans-Canada Telephone System in 1967, and additional developments will follow.

Use of electronic switching will spread through our exchanges with its benefits of greater service, reliability and flexibility.

Transmission will be aided as to quality, capacity and cost by microwave systems of much greater capacity, buried coaxial cables for growth and protection of service and satellite systems. Bell, in collaboration with the Northern Electric Company, is starting on an experimental programme which will see an earth station established north of Ottawa, to work experimentally with the



Department of Transport, Mill Village, N.S. station via satellite and, if successful, to become the hub of a satellite communication system serving the Northeastern Arctic by 1970. Wave guides and lasers are in the research stage but may be 10 years or more in coming into widespread use for telecommunications.

Wide Area Telephone Service, Telpak for broadband use, TWX for lower speed data, Data-Phone Service, and a multitude of custom designed services for specialized use of various industries, will continue to expand.

Underlying all of these developments are the research laboratories, probing on the frontier of knowledge and permitting us, because of the close integration of operations, research and manufacturing, which is in effect between Bell and Northern Electric, to take full and early advantage of these developments.

Perhaps the most spectacular of the current basic developments is micro-electronics—the development of integrated circuitry and components of miniscule size and extreme reliability. The potential benefits of these units when used in customers' equipment, switching and transmission facilities, are impressive.

We cannot, of course, envisage the effect of all of these future possibilities on our construction programme. However, based on our past experience, our forecasts of basic service requirements, and our current knowledge of developments in the communications field, we estimate construction expenditures will total \$4,350 million for the decade. This compares with \$2,000 million for the last decade, and that, in turn, was more than double the \$900 million expended from 1947 to 1956.

#### FINANCING OF CAPITAL EXPENDITURES

We have just described the magnitude of the construction programme amounting to \$4,350 million for the decade of 1967-1976.

For a better understanding of the requirements and resources we have prepared Exhibit I, which is filed as an appendix to this brief.

This Exhibit I shows in summary form the requirements and resources for the ten-year period 1967 to 1976. The amount of the Construction Expenditures in aggregate for this period is estimated at \$4,350 million (line 1) as was shown in the analysis of the construction expenditures. However, this is not the total of the capital expenditures for the period; an additional \$400 million (line 2) will be needed to take care of requirements not directly part of the construction of plant and facilities for Bell Telephone subscribers.

The major and foreseeable requirements in this category are the equity capital needs of our subsidiary companies and the portion that Bell would have to provide to maintain its proportionate interest. The largest of these is the Northern Electric Company. As previously mentioned, the Northern Electric Company is continuing its programme of expanding its research and development work and is actively engaged in the early stages of extending into foreign markets. This growth and development will require large infusions of new capital for some years. As sole owner of Northern Electric, and beneficiary of its efficient and profitable growth, Bell has a real and important responsibility to see that Northern has access to new capital. The ultimate beneficiaries of Northern Electric's success are the customers of Bell Telephone and, more indirectly but no less real, telephone users throughout Canada.

In 1966 Bell invested some \$25 million in Northern Electric and a somewhat larger amount will be required in 1967. Beyond that it is difficult to estimate requirements but, reflecting the growth in the telephone industry, in both the domestic and export markets, Northern's needs will be substantial.

Bell has majority ownership of four large telephone operating companies. They are The Avalon Telephone Company in Newfoundland; Maritime Telegraph and Telephone Company in Nova Scotia and, through a subsidiary, in Prince Edward Island; The New Brunswick Telephone Company in that Province, and Northern Telephone Limited which operates in Northern Quebec and Northern Ontario. All of these are thriving, growing companies and have financing needs comparable to our own with due regard to the difference in size. To continue to maintain our equity position in these companies we must participate in their financing.

The Exhibit shows that of the total requirements of \$4,750 million (line 3) for capital expenditures for the ten years, \$2,450 million or about half of the amount needed will be generated within the business (line 6). Of this, \$2,150 million (line 4) consist of accruals for depreciation, that is, amounts included in operating expenses to provide for recovery of the original investment.

Another source of internally generated capital is the amount of earnings left in the business after meeting expenses and paying dividends. This is estimated to amount to \$300 million (line 5) over the period, about three per cent of the total revenues and a relatively minor contributor to the total capital requirement.

After deducting the internal resources, the amount of capital that the Company must obtain outside the business is estimated at \$2,300 million (line 7).

#### CAPITAL STRUCTURE—DEBT RATIO

Some portion of the company's need for new capital can be met by borrowing against its existing assets. It has been the Company's policy for many years to sell mortgage bonds secured by the Company's plant and this means of financing will be continued. However, only a limited amount of such debt can be incurred, since lenders will only invest capital in a company's bonds if there is good security of principal and interest as well as an adequate yield on the investment. Protection is provided in the agreement, or trust indenture, between the Company and the lenders with respect to further borrowing by stipulating that interest requirements must be earned at least one and three-quarter times.

The Company has found that on the average a ratio of approximately 40% of the invested capital in the form of debt is most appropriate for our business. A debt ratio in the general range of 40% allows some margin for increasing borrowing if the need for capital occurs at a time when it is not possible or prudent to sell additional stock. This financing policy, which incidentally has been repeatedly endorsed by the Board of Transport Commissioners, is well known to investors and widely approved by them as indicated by the Company's ability to market large amounts of bonds at reasonable cost.

It is the company's intention to continue this policy to maintain the capital structure at about 40% debt and 60% equity. This will involve the issue of about \$1,000 million of additional mortgage bonds as shown on line 8 of the Exhibit. However, during this same ten-year period, 1967 to 1976, there are eight series

of bonds outstanding totalling \$236 million which mature and must be redeemed. Since our business is constantly growing and therefore needs constant infusions of new capital, the Company does not make provision for redemption through sinking funds. To retain and continue the advantages of a 40% debt ratio, the maturing bonds will be replaced with additional issues of bonds. So the \$1,000 million of new debt capital required to meet the demands of the capital expenditure programme will be increased by \$236 million for replacing existing debt.

Referring back to the Exhibit again, it can be seen that with \$1,000 million of the total additional capital requirement obtained by debt financing, there will remain \$1,300 million (line 9) to be met by equity financing.

### EQUITY FINANCING

Throughout the history of the Company, with a few minor exceptions, the Company's capital structure has consisted of debt in the form of mortgage bonds and common stock, plus whatever earnings could be retained in the business. This is the simplest form of capital structure that can be considered appropriate for a business of this kind. However, the Company is facing a period of capital raising which is unprecedented in size. In view of this it is prudent for the Company to be in a position to use other methods of financing if the traditional sources of new capital become less responsive for any reason.

Freedom to issue preferred shares when and if the need arises, would be provided by the amendment proposed in Section 3. The Company has that power in principle at the present time but the conditions which must be met under the present Act are such as to make it impracticable. Section 162 of the Canada Corporations Act provides three possible methods of obtaining authorization for financing by preference shares:

- (1) by unanimous vote at a general meeting of shareholders representing two-thirds of issued capital;
- (2) by unanimous sanction in writing by all shareholders; or
- (3) if shareholders representing three-quarters of the total shares outstanding give their sanction; then the Governor-in-Council may approve it if he sees fit.

Any one of these methods is impracticable for a Company having as wide a distribution of shares as we do. With the size of our customer service requirements over the next few years, this limitation on financing flexibility should be removed. Authority given to the Company by Parliament to create preferred shares appears to be the only solution. Even with this authority, any by-law to issue preferred shares would still require the sanction of at least two-thirds of the votes of the common shareholders cast at a meeting.

In any case, regardless of the specific kind of financing which might be undertaken, the Company's equity needs will be approximately \$1,300 million.

The Company's common stock originally had a par value of \$100.00 per share. On October 1, 1948, the Board of Directors authorized subdivision of the Company's stock into shares of \$25.00 par value, pursuant to an amendment to the Company's charter approved by Parliament in 1948.

The Company's charter states the maximum amount of capital authorized in terms of par value. That limit at present is 40,000,000 shares of \$25.00 par value



amounting to \$1,000 million of authorized capital. However, the par value of \$25.00 per share does not represent the net asset or book value behind the stock. This is because the stock has usually been sold at a premium above the par value. This premium, plus the earnings retained in the business since its inception, brings the book value per share to about \$39.00.

The market value is higher than book value and at present is about \$49.00. This represents the investor's appraisal of the earnings and dividends potential. When the Company sells stock it is necessarily below the current market price in order to encourage investors to buy the stock in the amounts needed.

Historically the price obtained by the Company when it places a large amount of stock on the market has been about 78 per cent of the market price. Over the past twenty years the price in dollars has ranged between \$31.50 in 1952 and 1953, and \$39.00 in 1962. In order to estimate the number of shares which will be issued over the next ten years a broad range of prices somewhat higher than the sale price of any previous issue has been assumed.

Returning now to the Exhibit, the amount of equity capital needed over the next 10 years is estimated at \$1,300 million (line 9). At the assumed range of prices approximately 30,000,000 shares must be sold. In terms of par value of \$25.00 per share, this will amount to \$750 million, the amount of the increase for which authorization is sought by this Bill.

This additional stock would be issued gradually over the next ten years as the need arises. The timing, of course, would be such as to take into account the receptivity of the stock market and our position as regards cash needs and commitments.

It should be emphasized that approval by Parliament of the proposed increase in authorized capital does not in fact increase the Company's capital nor obligate nor commit the Company in any way to the customers, the shareholders or the public until such additional capital is further authorized, from time to time, by the shareholders and the Directors, and the stock is offered for sale.

#### PAST AUTHORIZATIONS

Exhibit No. 2 has been prepared to help put the proposed increase in authorized capital in perspective with the Company's history.

The original Act of Incorporation in 1880 authorized capital to the amount of \$1 million. Since then the authorized capital has been increased in the amounts and at the dates indicated in the Exhibit.

In the right-hand column of the table the percentage increase of each successive change is shown. It can be seen that the increase for which authorization is now sought, while the largest in amount, is the smallest in the Company's history in terms of percentage.

#### OWNERSHIP OF BELL

Exhibits Nos. 3 and 4 show equity ownership of the Company and the distribution of capital stock.

Line 1 of Exhibit No. 3 shows that the telephone plant of the Company had a value of \$2,748,867,000 at the end of December 1966. This consists of telephone

property—that is, the land, buildings, plant and equipment needed to supply telephone and related services to the public.

The investment in property is shown at cost but the value of telephone plant is constantly being eroded by wear and tear and obsolescence. This depreciation in the value of the plant is provided for in a depreciation reserve which amounted to \$667,700,000 (line 2). By deducting this depreciation reserve from the original cost of the plant, one arrives at \$2,081,167,000 (line 3), the net investment in telephone plant.

As referred to earlier there are outstanding mortgage loans against the Company's property amounting to about \$944,803,000 (line 4), which must be deducted from the investment.

Investment in subsidiary companies and the net of other assets and current and deferred liabilities amount to \$188,484,000 (line 5) bringing total net assets to \$1,324,848,000 (line 6).

This is the shareholders' equity at the end of December 1966. It is comprised of the par value of 34,075,000 shares outstanding at that date, amounting to \$851,875,000, the premium, that is the amounts in excess of the par value paid for those shares totalling \$341,836,000, and retained earnings which have been reinvested in the business. These amounts are shown on lines 7, 8 and 9 respectively and total \$1,324,848,000 (line 10).

The ownership of the Company is therefore represented by the 34,075,000 shares outstanding at December 31st, 1966. This is all common stock of one class, there are no preferred shares of any kind.

#### DISTRIBUTION OF CAPITAL STOCK

The distribution of the shares by class of holder and geographical area is shown in the attached table, Exhibit No. 4. Well over half, 60 per cent of the shares are held by individuals and the majority of these are women. Institutional investors are the next largest class of holder with 25 per cent of the stock. These are largely investors of pension funds which are held for the eventual benefit of individuals. The remainder of the stock is held by corporations and trustees, and, a relatively small amount by security dealers. Again, a high proportion of these holdings is undoubtedly for the account or benefit of individuals. So that there is a very substantial number of Canadians who have, directly or indirectly, a financial stake in the welfare of the Company.

In total there are 255,449 shareholders, which makes Bell the most widely held Canadian stock in Canada by a substantial margin.

The geographical distribution of the stock shows clearly that this is a Canadian company. Every province is well represented on the shareholder list. Only 5.4 per cent of the stock is held outside the country, 4.0 per cent in the United States and 1.4 per cent in other foreign countries. The United States holding includes 2.2 per cent of the stock held by American Telephone and Telegraph Company. Employees and pensioners of the Company hold about 9 per cent of the shares.

#### THE BILL

With the background information now at your disposal, let us now turn to the Bill itself:

*Proposed Section 1*

Section 1 of the Bill would enable the Company to utilize the name Bell Canada. The Company was originally known as The Bell Telephone Company of Canada. In 1948, the French version of the Company's name, La Compagnie Canadienne de Téléphone Bell was officially changed to La Compagnie de Téléphone Bell du Canada.

In recent years, the Company has used in advertising and other material the abbreviated bilingual form of its corporate name Bell Canada. On February 18, 1966, Bell Canada was registered as a trade name. This approach to company names has been adopted by several other Canadian corporations such as Cominco, Dosco, Domtar, etc. The Company seeks the approval of Parliament to use for all legal purposes the abbreviated bilingual corporate name Bell Canada.

*Proposed Sections 2 and 3*

These two sections should be discussed together.

Section 2 fixes the maximum authorized capital and stipulates that it may be divided into common shares of the par value of \$25.00 each and into preferred shares.

Section 3 on the other hand prescribes the procedure for the creation of these preferred shares.

The compelling reasons which have prompted the Company to seek these amendments have been fully analysed in the first part of the brief.

*Proposed Section 4*

Section 4 reads: "Section 2 of chapter 39 of the statutes of 1957 is hereby repealed."

This Section 2 reads as follows:

"2. The Company shall not have power to make any issue, sale or other disposition of its capital stock, or any part thereof, without first obtaining the approval of the Board of Transport Commissioners for Canada of the amount, terms and conditions of such issue, sale or other disposition of such capital stock. Subject to any applicable legislation relating to the issue, sale or disposition of securities by corporations, the issue, sale or other disposition of capital stock by the Company in accordance with such approval shall be legal and valid."

The purpose of this amendment is to allow the Company to issue its capital stock without requiring the approval of the Board of Transport Commissioners.

The primary role of the Board of Transport Commissioners with relation to The Bell Telephone Company of Canada is laid down in the Railway Act. The Board has jurisdiction over the operations of the Company including regulation of the Company's rates for most of its services. In exercising this regulatory control the Board must satisfy itself that the Company is managed efficiently and that the rates it charges are just and reasonable. Thus any action of the Company which may have an unwarranted adverse effect on telephone rates is properly of interest to the Board of Transport.



This responsibility for ensuring efficient and economical operation of the Company would remain unchanged by the proposed repeal of Section 2 of Chapter 39 of the Statutes of 1957 since this section deals only with approval by the Board of Transport Commissioners of the amount, terms and conditions of issue of capital stock by the Company.

This requirement, not specifically included in the Board's powers under the Railway Act, was first prescribed in 1929. Its purpose was to ensure that the Company did not sell stock at a price which would impose undue costs on its customers.

Since the Company's earnings were regulated on the basis of the number of shares outstanding, if more shares were issued than were necessary, the amount of earnings required—and therefore the rates charged—would have to be greater.

In May 1966, the Board of Transport Commissioners changed the basis of regulating the Company's earnings. Instead of stating the earnings in terms of dollars per share, the new basis is a percentage on the total amount invested in the business unrelated to the number of shares. It is obviously in the Company's interest to issue new shares at the highest price that the market will absorb. Since this is equally in the interests of the subscriber, the approval of the Board of Transport Commissioners for the issue of the Company's capital stock is redundant and should be discontinued. This would eliminate the expense and delay associated with the public hearings now necessary and would give the Company more flexibility in undertaking equity financing when conditions are favourable, without, in any way, nullifying the effective control exercised by the regulatory authority over the Company.

#### *Proposed Section 5*

"Section 10 of chapter 67 of the statutes of 1880 is repealed and the following substituted therefor:

10. The Directors of the Company may, from time to time, open or cause to be opened stock books or registers for the subscription for shares by parties desiring to become shareholders or to increase their share holdings in the capital stock of the Company, in such places as they shall think fit, and all parties so subscribing shall pay the subscription price either as a whole or in instalments, in such amounts, at such time or times, at such place or places, and in such manner as the Directors shall determine. When the subscription price for any such shares is not required to be paid in full at the time of subscription or allotment, or is not to be paid in full in specified instalments, the Directors may from time to time call in and demand from the subscribers thereof respectively, all sums of money by them subscribed, at such times, in such amounts, at such places and in such manner as they shall from time to time determine."

In the Private Act which incorporated Bell, Section 10 covered the issuance of shares. In 1880 it established a method of issuing shares for 10% down and the balance to be paid on calls, each call being 10% or less of the price. This arrangement suited a new Company and the Directors could make calls and bring in cash as the construction program of the Company required it.

The new clause makes it clear that stock can be sold for cash and that existing shareholders are unquestionably entitled to buy additional shares if they should so desire. In the original section, the implication could be read in that shares could only be sold to persons not already being shareholders of Bell.

*Proposed Section 6*

"Section 1 of chapter 100 of the statutes of 1920 is repealed and the following substituted therefor:

1. (1) Notwithstanding the provisions of chapter 67 of the statutes of 1880, *incorporating the Company*, and of the Acts in amendment thereof, the Directors of the Company, when authorized by by-law for that purpose passed and approved by *not less than two-thirds of the votes* cast at a special general meeting of the shareholders duly called for the purpose of considering the same, may issue bonds, debentures or debenture stock from time to time for such amounts as may be approved by the shareholders and secure the same by one or more deeds of trust creating such mortgages, charges or encumbrances upon the whole or any part of the property of the Company, present and future, as may be described therein.

(2) Nothing herein contained shall authorize the issue of any such bonds, debentures or debenture stock ranking in priority to any of the bonds of the Company heretofore issued."

The present section is as follows:

"1. (1) Notwithstanding the provisions of chapter sixty-seven of the statutes of 1880, incorporating The Bell Telephone Company of Canada, hereinafter called "the Company", and of the Acts in amendment thereof, the Directors of the Company, when authorized by by-law for that purpose passed and approved by the votes of not less than two-thirds in value of the subscribed stock of the Company represented at a special general meeting duly called for the purpose of considering the same, may issue bonds, debentures or debenture stock from time to time for such amounts as may be approved by the shareholders, and secure the same by one or more deeds of trust creating such mortgages, charges or encumbrances upon the whole or any part of the property of the Company, present and future, as may be described therein.

(2) Nothing herein contained shall authorize the issue of any such bonds, debentures or debenture stock, ranking in priority to, or *pari passu* with any of the bonds of the Company heretofore issued."

The wording is identical to the section replaced except as indicated by the underlining. The purpose of the changes in the wording in sub-clause (1) is to make it clear that it is the vote of two-thirds of the shares represented at the meeting and not the votes of two-thirds of the total outstanding stock that is required to authorize such borrowing. The new provision puts Bell in the same position as companies incorporated under the Canada Corporations Act with respect to shareholder authorization of borrowing.

The omission of the words "or *pari passu* with" from sub-clause 2 is to clarify that all issues of bonds under the Company's principal trust indenture shall rank *pari passu* with all other issues under that indenture.

### *Proposed Section 7*

"Section 5 of chapter 81 of the statutes of 1948 is hereby repealed and the following substituted therefor:

5. It is hereby declared that subject to the provisions of the *Radio Act*, and of any other statutes of Canada relating to radio and radio broadcasting and to the regulations made thereunder, the Company has the power to transmit, emit or receive and to provide services and facilities for the transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic system and in connection therewith to build, establish, maintain and operate in Canada or elsewhere, alone or in conjunction with others, either on its own behalf or as agent for others all services and facilities which the Company may deem expedient or useful for such purposes, using and adapting any improvement or invention of communicating that may, in the opinion of the Board of Directors, be deemed to be in the interest of the Company."

The purpose of proposed Section 7 is to clarify Section 5 of chapter 81 of the statutes of Canada 1948. That section reads:

"5. It is hereby declared that subject to the provisions of the *Radio Act*, 1938, chapter fifty of the statutes of 1938, and of any other statute of Canada relating to radio and radio broadcasting and to the regulations made thereunder, the Company has and always has had the power to operate and furnish wireless telephone and radio-telephone systems and to provide services and facilities for the transmission of intelligence, sound, television, pictures, writing or signals."

Although this section was only passed in 1948, it is out of date. The science of electronics has been developing very rapidly and on a very broad front. Through electronics, a wide range of specialized communications services have become possible. These communications services are supplementary to regular telephone service. Included among new services already offered by the Company are:

#### *Data-Phone Service*

A series of Data-Phone data sets enables customers to transmit a wide range of data—including information from punches cards, paper tape or magnetic tape—from one business machine to another. Machine language can be transmitted over the regular telephone network or private lines.

#### *Phone-Fax Service*

An electronic facsimile service, it transmits or receives letter-size hand-written or printed messages, charts, drawings or forms via the regular network or private lines.

#### *Teletscript Service*

Provides instantaneous transmission of handwritten messages or sketches by means of a private line or, when associated with a Data-Phone data set, over the regular telephone network.



### *Telpak Service*

A private line inter-city service used to transmit information requiring an exceptionally broad band of frequencies, such as data from advanced computers and high-speed facsimile equipment. Its base capacity may be sub-divided to carry simultaneously many smaller loads of information, such as voice calls or slow-speed facsimile.

These advances indicate that the Company can no longer be considered a telephone company in any narrow sense but should be regarded as a communications company. In order to remain strong and competitive and thus be an asset to the Canadian economy, the Company must meet the demands of Canadians for the widest possible range of the most modern telecommunications services. Because of these advances in technique and the prospect of further equally spectacular communications advances, a need exists to update the Company's powers. These advances in technique have been recognized by Parliament in public legislation.

Section 273 of the Criminal Code which formerly referred to theft of telephone service now refers to theft of telecommunications services.

The modern word "telecommunication" has been repeatedly defined by Parliament in various statutes such as the Radio Act (1952 R.S.C. chapter 233), the Canadian Overseas Telecommunication Corporation Act (1952 R.S.C. chapter 42), the Criminal Code as:

"Any transmission, emission or reception of signs, signals, writing, images or sounds or intelligence of any nature by wire, radio, visual or other electromagnetic system." (C.O.T.C. Act)

These words have been adapted and incorporated into the proposed clause.

The Company, being unable to forecast all possible technological changes, proposes an amendment which would permit the Company to use and adapt any improvement or invention for communicating with others and any other means for communicating that may, in the opinion of the Board of Directors of the Company, be deemed to be in the interest of the Company.

Finally the proposed amendment would permit the Company to enjoy these powers in Canada or elsewhere, alone or in conjunction with others, either on its own behalf or as agent for others.

### *Proposed Section 8*

"For the purpose of carrying out its corporate powers the Company is empowered to purchase or otherwise acquire, and to hold shares, bonds, debentures or other securities in any other Company having objects in whole or in part similar to those of this Company or in any Company engaged in research and development work in areas of inquiry that relate to the objects of this Company and to sell or otherwise deal with the same"

Proposed Section 7 which we have just discussed would give the Company powers to utilize new technological developments to supply the best in communications. This clause would enable the Company to further research and thus produce the advances needed. Naturally, there is no point in the Company

promoting research unless it is empowered by Section 7 to utilize the successful results of such research.

In the past, the advantages of foreign research i.e. Bell Laboratories in the United States, have accrued to Bell Canada through the service contract between American Telephone and Telegraph and Bell. A real possibility exists that competitive aspects in international communications could end or at least reduce the availability of the fruits of such foreign research. Naturally, it is desired to maintain Canada among the nations technologically most advanced in communications. In order to accomplish this end, increased support is needed from Bell Canada for research and development.

This proposed section would broaden the Company's right to invest in other companies having objects in whole or in part similar to those of Bell. Bell's objects encompass the carrying on of a telecommunications business including the right to manufacture telecommunications equipment and plant and other electrical instruments. The wording in this aspect of the proposed section is largely taken from Section 14(e) of the Canada Corporations Act which reads as follows:

"14. (e) to take, or otherwise acquire and hold, shares, debentures or other securities of any other company having objects altogether or in part similar to those of the company, or carrying on any business capable of being conducted so as, directly or indirectly, to benefit the company, and to sell or otherwise deal with the same;"

The latter part of the proposed section would allow investment in companies doing research that relates to the communications sphere. It is anticipated that these rights will enable Bell to support directly successful research and thus maintain a modern communications system even with reduced foreign assistance.

#### *Proposed Section 9*

"The Board of Directors of the Company, may, if authorized by by-law duly passed by the Directors and confirmed by at least two-thirds of the votes cast at any annual or special general meeting of the shareholders called for considering the by-law elect from its number an executive committee of not less than five, which executive committee may exercise such powers of the Board as are delegated to it by by-law, subject to any restrictions contained in any such by-law and to any regulations imposed from time to time by the Directors. Three members of the executive committee shall constitute a quorum."

Companies incorporated by Letters Patent have the power in their Boards of Directors to appoint an executive committee of the Board. This power is given to those companies by Section 94 of the Canada Corporations Act which reads as follows:

"94. The board of directors of the company whenever it consists of more than six, may if authorized by by-law duly passed by the directors, and sanctioned by at least two-thirds of the votes cast at a special general meeting of shareholders duly called for considering the by-law, elect from its number an executive committee consisting of not less than three, which

executive committee shall have power to fix its quorum at not less than a majority of its members and may exercise such powers of the board as are delegated by such by-law, subject to any restrictions contained in any such by-law and to any regulations imposed from time to time by the directors."

Since Bell Telephone has a Board of Directors of 18 members and is empowered to have twenty members, it requests the convenience of appointing an executive committee.

#### *Proposed Section 10*

"Every Director of the Company, and his heirs, executors and administrators, and estate and effects, respectively, may with the consent of the Company, given at any meeting of the shareholders thereof, from time to time and at all times, be indemnified and saved harmless out of the funds of the company, from and against:

- (a) all costs, charges and expenses whatsoever that such Director sustains or incurs in or about any action, suit or proceeding that is brought, commenced or prosecuted against him, for or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him, in or about the execution of the duties of his office; and
- (b) all other costs, charges and expenses that he sustains or incurs, in or about or in relation to the affairs thereof; except such costs, charges or expenses as are occasioned by his own wilful neglect or default."

Section 91 of the Canada Corporations Act reads:

"91. Every director of the company, and his heirs, executors and administrators, and estate and effects, respectively, may, with the consent of the company, given at any meeting of the shareholders thereof, from time to time and at all times, be indemnified and saved harmless out of the funds of the company from and against:

- (a) all costs, charges and expenses whatsoever that such director sustains or incurs in or about any action, suit or proceeding that is brought, commenced or prosecuted against him, for or in respect of any act, deed, matter or thing whatsoever, made, done or permitted by him, in or about the execution of the duties of his office; and
  - (b) all other costs, charges and expenses that he sustains, or incurs, in or about or in relation to the affairs thereof, except such costs, charges or expenses as are occasioned by his own wilful neglect or default."
- (1934, chapter 33, section 91).

The new section is identical to Section 91 of the Canada Corporations Act and gives the Company Directors the same protection that exists for all Letters Patent Companies' directors. It is noted that indemnification is not included when loss is occasioned by a director's wilful neglect or default.

#### *Proposed Section 11*

"Section 5 of chapter 67 of the statutes of 1880 as amended by Section 2 of chapter 95 of the statutes of 1882 is hereby repealed and the following substituted therefor:



3. The said Company may construct, erect and maintain its line or lines of *telecommunication* along the sides of and across or under the public highways, streets, bridges, water courses or other such places, or across or under any navigable waters, either wholly in Canada or dividing Canada from any other country, provided the said Company shall not interfere with the public right of travelling on or using such highways, streets, bridges, water courses or navigable waters; and provided that in cities, towns and incorporated villages the Company shall not erect any pole higher than 40 feet above the surface of the street, *nor affix and maintain any telecommunication wire below any minimum height that may be approved by the Board of Transport Commissioners for Canada or that may be established by any regulation or general order of said Board*; nor carry more than one line of poles along any street without the consent of the municipal council having jurisdiction over the streets of the said city, town or village, and that in any city, town or incorporated village, the poles shall be as nearly as possible straight and perpendicular and shall, in cities, be painted if so required by any by-law of the council; and provided further that where lines of telegraph are already constructed, no poles shall be erected by the Company in any city, town or incorporated village along the same side of the street where such poles are already erected unless with the consent of the council having jurisdiction over the streets of such city, town or incorporated village; provided also, that in so doing the said Company shall not cut down or mutilate any tree, and provided that in cities, towns and incorporated villages, the location of the line or lines and the opening up of the street for the erection of poles or for carrying the wires under ground shall be done under the direction and supervision of the engineer or such other officers as the council may appoint, and in such manner as the council may direct, and that the surface of the street shall, in all cases, be restored to its former condition by and at the expense of the Company; Provided also, that no Act of Parliament requiring the Company (in case efficient means are devised for carrying telecommunication wires under ground) to adopt such means, and abrogating the right given by this section, to continue carrying lines on poles through cities, towns or incorporated villages, shall be deemed an infringement of the privileges granted by this Act; and provided further that whenever in case of fire it becomes necessary for its extinction or the preservation of property that the *telecommunication* wires should be cut, the cutting under such circumstances of any of the wires of the Company under the direction of the chief engineer or other officer in charge of the fire brigade, shall not entitle the Company to demand or claim compensation for any damages that might be so incurred."

This clause amends Section 3 of chapter 67 of the statutes of 1880 by:

- (a) substituting the word "*telecommunication*" for the word "*telephone*" wherever it appears. Inasmuch as section 7 of this Bill shows the need to refer to the Company as a telecommunication company and not to a telephone company for the sake of consistency, the proposed substitution appears necessary; and

- (b) the clause gives to the Board of Transport Commissioners for Canada jurisdiction to establish the height of the Company's wires. When this proposed clause was prepared, there existed considerable difficulty about wire heights. Since that time, Parliament has seen fit to amend the transportation Bill in such a way as to give to the new regulatory body power to regulate wire heights. The wording of this proposed section is consistent with the wording that has been adopted in clause 66 of Bill C-231, which reads:

"66. (1) Paragraph (b) of subsection (1) of section 378 of the said Act is repealed.

(2) Section 378 of the said Act is further amended by adding thereto, immediately after subsection (1) thereof, the following subsection:

- '(1a) Notwithstanding anything in any Act of the Parliament of Canada or of the legislature of any province, or any power or authority heretofore or hereafter conferred thereby or derived therefrom, the Commission may determine the height at which any company empowered by Special Act or other authority of the Parliament of Canada to construct, operate and maintain telegraph or telephone lines shall affix and maintain any wires

(a) above or across highways and public places in cities, towns and incorporated villages; and

(b) above, across or adjacent to any private way, entrance or lane used for vehicular traffic;'

and no such company shall affix or maintain any such wires at any lower height than that so determined by the Commission, nor shall any such company erect more than one line of poles along any highway."

### *Proposed Section 12*

"Notwithstanding the provisions of section 193 of the *Canada Corporations Act*, the Company may make loans to any employee to assist him during a period of adversity or illness regardless of the fact that any such employee is a shareholder of the Company, and section 190 of the *Canada Corporations Act* shall not apply to any such loans."

Sections 193 and 190 of the *Canada Corporations Act* referred to are as follows:

"193. No company shall loan any of its funds to any shareholder."

"190. Where any loan is made by the company to any shareholder in violation of the provisions of this Part, all directors and other officers of the company who make the same or assent thereto are jointly and severally liable to the amount of such loan with interest to the company and also to creditors of the company, for all debts of the company then existing or contracted from the time of the making of such loan to that of the repayment thereof."

The Company has a Pension Fund and an Employees' Stock Savings Plan which in conjunction are designed to provide adequate post-retirement income to employees. The non-contributory pension plan in itself is not always adequate

for this purpose. This clause is designed to prevent a temporary financial storm in an employee's affairs from forcing sale of his holdings of Company stock resulting in post-retirement income problems. The Employees' Savings Plan provides that the dividends on the shares acquired under the Plan may be assigned to purchase additional shares. Forcing the unfortunate employee to divest himself of his shares before receiving a loan thus compounds the burden. Temporary loans to employee-shareholders to tide them over a period of illness or adversity would in many cases permit retention of savings held in the form of Company stock.

#### *Proposed Section 13*

"The Directors of the Company are authorized to provide housing assistance to employees in the course of their employment and to establish plans in connection therewith."

This clause is new. Its purpose is to enable the Company to adequately man the organization. The nature of the business is such that maximum efficiency requires transfers of employees from place to place. This clause permits maintenance of a housing assistance plan so that such moves can be made without undue financial loss to employees. It will permit the Company to purchase or otherwise acquire residences from employees who have been transferred and have not otherwise disposed of their homes.

#### *Proposed Section 14*

"Notwithstanding the provisions of subsection (1) of section 149 of the *Canada Corporations Act*, paragraphs (m) and (n) of subsection (1) of section 77 of the said Act shall not apply to the Company in respect of transactions entered into in the ordinary course of the business carried on or intended to be carried on by the Company or on the general credit of the Company, and to the extent aforesaid said paragraphs (m) and (n) shall not be incorporated with the Special Acts of the Company."

Section 149 of the *Canada Corporations Act* makes the prospectus provisions as contained in Part I of that Act applicable to the Bell. Section 77 of that Act sets forth the relevant financial credit information that must be contained in a prospectus. In particular, Section 77(s) indicates that the provisions of material contracts must be included in a prospectus. This would include contracts for the purchase of telephones, paper, etc. There is an exception to Section 77(s) however. The exception permits contracts entered into in the ordinary course of the business to be left off the prospectus. The assumption is that these routine contracts do not affect the credit of the business to any significant degree. Material contracts outside the ordinary course of business must be listed on a prospectus.

Section 77(m) is similar to (s); it requires inclusion of contracts for the purchase of property, that is, real estate. It does not contain the exception just mentioned and so contracts for the purchase of land, even in the ordinary course of business, must be included. Bell, because of its size, is at any given moment engaged in the purchase of perhaps a dozen or more pieces of land. In most cases, these purchases are very small, inexpensive bits of land upon which to locate



microwave towers, equipment buildings, etc. Relative to Bell's size, these purchases do not affect the Company's credit. The proposed clause would allow for Bell the same exception for contracts in the ordinary course of business, for sub-clause (m) as exists in the Canada Corporations Act, for sub-clause (s). Sub-clause (n) relates to sub-clause (m) and requires inclusion in the prospectus of the names of the vendors of property. If the exception which presently applies to sub-clause (s) is extended to sub-clause (m), which is requested, then sub-clause (n) should be similarly qualified with respect to Bell. The exception herein requested relates to Bell's size. The purchase of plots of land in the ordinary course of business does not significantly affect the Company's credit. For example: inclusion in the prospectus of particulars of a contract to buy a woodland lot in Northern Ontario for \$400.00 adds nothing to the prospectus except bulk and for that reason it is requested that the "ordinary course of business" exception be extended to sub-clause (m) and sub-clause (n). It should be noted that all land purchase contracts outside the ordinary course of business will continue to be required on a prospectus. Without the requested exception, the Company is presently required to include particulars on over 150 land purchase contracts in each prospectus.

In both Ontario and Quebec, there are provisions comparable to section 77(m) and (n). In the Ontario Securities Act, section 39(21), (22) are comparable to sub-clauses (m) and (n). They include an exception for contracts in the ordinary course of business. The Quebec Securities Act (Order in Council No. 222, March 14, 1956, Annex A, paragraph 21), is similar to sub-clauses (m) and (n) and it contains the exception for contracts in the ordinary course of business.

#### *Proposed Section 15*

"Notwithstanding the provisions of section 17 of chapter 67 of the statutes of 1880 and of section 181 of the *Canada Corporations Act*, the Directors may fix in advance a date preceding by not more than fifteen days the date of the holding of any meeting of shareholders as a record date for the determination of the shareholders entitled to attend and vote at such meeting, but any such record date shall be referred to in the notice calling such meeting of shareholders."

This clause is new. As the law stands at this time, all shareholders of the Company, even those who would become so on the day before a general or special meeting, are entitled to attend and vote at such meeting.

With more than 255,000 shareholders, it is extremely difficult if not impossible for the Company to advise those late shareholders of the meeting to be held, to receive their proxy and to try and figure out the number and value of the shareholders present or represented at such meeting. This clause permits a cutoff date to be set up to 15 days before a meeting. Persons becoming shareholders in the period between the cutoff date and the meeting will not have the right to attend and vote at that meeting.

#### *Proposed Section 16*

"Chapter 88 of the statutes of 1884; chapter 67 of the statutes of 1892; chapter 108 of the statutes of 1894; sections 1, 3 and 4 of chapter 41 of the statutes of 1902 and chapter 61 of the statutes of 1906 are hereby repealed,

but such repeal shall not affect increases in the Company's authorized capital stock effected under any such enactments."

Chapter 88 of the statutes of 1884 had only one section. That section increases authorized capital from \$1,000,000 to \$2,000,000. Since Section 1 of chapter 39 of the statutes of 1957 authorizes capitalization of \$1,000 million, chapter 88 of the statutes of 1884 is no longer relevant.

Chapter 67 of the statutes of 1892 had three sections. In synopsis, they provided:

1. Increase in capital authorized from \$2,000,000 to \$5,000,000;
2. Limit on bond issues to \$500,000;
3. Made telephone rates subject to control by Governor in Council.

None of these provisions is any longer relevant because:

1. In 1957 authorized capital limited to \$1,000 million;
2. In chapter 100 of the statutes of 1920, the ceiling on bond issues was removed and bond issues were made subject to 2/3 approval of shareholders; and
3. Control over telephone rates is given to the Board of Transport Commissioners for Canada by section 380 of the Railway Act (which section applies to Bell Telephone).

Chapter 108 of the statutes of 1894 had only one section and that limited bond issues to 75% of paid-up capital stock. Since chapter 100 of the statutes of 1920 removed the ceiling on bond issues, this section is no longer relevant.

Sections 1, 3 and 4 of chapter 41 of the statutes of 1902 provided:

- S. 1. Increase in authorized capital to \$10 million.
- S. 3. Set out in detail how Governor in Council was to govern telephone rates.
- S. 4. Interpreted "rates" for use in previous section.

These sections are no longer relevant because:

1. In 1957 authorized capital limited to \$1,000 million;
- 2, 3 and 4. Control over telephone rates is given to the Board of Transport Commissioners for Canada by section 380 of the Railway Act (which section applies to Bell Canada).

Chapter 61 of the statutes of 1906 contained two sections. In synopsis:

1. Increased authorized capital to \$30 million;
2. Made Bell Telephone subject to the Railway Act.

These sections are no longer relevant because:

1. In 1957 authorized capital limited to \$1,000 million;
2. Section 380 of the Railway Act makes that section applicable to Bell and in combination with section 328 (also applicable to Bell) establishes the existing rate regulation.

The Bell Telephone Company of Canada

## EXHIBIT NO. 1

The Bell Telephone Company of Canada  
ESTIMATE OF REQUIREMENTS AND RESOURCES  
1967 to 1976

Requirements:		\$
1.	Construction Expenditures .....	4,350,000,000
2.	Other Requirements .....	400,000,000
3.	TOTAL .....	<u>4,750,000,000</u>
Resources:		
4.	Depreciation and Salvage .....	2,150,000,000
5.	Other Resources .....	300,000,000
6.	TOTAL .....	<u>2,450,000,000</u>
7.	Net requirements (Line 3 less Line 6) .....	2,300,000,000
Financing to Maintain 40% Debt Ratio		
8.	Bonds .....	<u>1,000,000,000</u>
9.	Equity .....	<u>1,300,000,000</u>
Additional Shares .....		30,000,000
Par Value of Additional Shares .....		\$750,000,000

## EXHIBIT NO. 2

The Bell Telephone Company of Canada  
CAPITAL STOCK AUTHORIZATIONS BY ACT OF PARLIAMENT

Date	Increase \$	Total \$	Per Cent Increase %
April 1880 .....	—	1,000,000	—
April 1884 .....	1,000,000	2,000,000	100
July 1892 .....	3,000,000	5,000,000	150
May 1902 .....	5,000,000	10,000,000	100
July 1906 .....	20,000,000	30,000,000	200
June 1920 .....	45,000,000	75,000,000	150
May 1929 .....	75,000,000	150,000,000	100
June 1948 .....	350,000,000	500,000,000	233
Dec. 1957 .....	500,000,000	1,000,000,000	100
Proposed 1967 .....	750,000,000	1,750,000,000	75



## Exhibit No. 3

## The Bell Telephone Company of Canada

## OWNERSHIP AT 31 DECEMBER 1966

Thousands of Dollars

1. Telephone Plant—at Cost .....	2,748,867	
2. Less: Depreciation .....	667,700	
		<hr/>
3. Net Telephone Plant .....	2,081,167	
4. Less: Mortgage Bonds .....	944,903	
		<hr/>
	1,136,364	
5. Plus: Investments in Subsidiaries and Other Assets and Liabilities—Net ..	188,484	
		<hr/>
6. Net Assets .....	1,324,848	
		<hr/>
7. Par Value: 34,075,000 shares at \$25 .....		851,875
8. Premium .....		341,836
9. Retained Earnings—accumulated since 1880 .....		131,137
		<hr/>
10. Shareholders' Equity .....		1,324,848
		<hr/>

## Exhibit No. 4

The Bell Telephone Company of Canada  
DISTRIBUTION OF CAPITAL STOCK

At 31 December 1966

## SUMMARY

Number of Shares .....	34,075,000
Number of Holders .....	255,449
Average Number of Shares Held .....	133

	Shares Held		Holders	
	Number	Per Cent	Number	Per Cent
BY CLASSES OF PERSONS				
Men .....	8,943,230	26.2	87,237	34.2
Women .....	11,643,801	34.2	142,487	55.8
Joint Accounts .....	204,193	0.6	2,762	1.1
Trustees .....	1,682,136	4.9	11,758	4.6
Institutional Investors .....	8,401,715	24.7	8,754	3.4
Corporations .....	2,155,834	6.3	2,170	0.8
Security Dealers .....	1,044,091	3.1	281	0.1
<b>TOTAL</b> .....	<b>34,075,000</b>	<b>100.0</b>	<b>255,449</b>	<b>100.0</b>

## BY GEOGRAPHICAL AREAS

Alberta .....	320,432	0.9	3,311	1.3
British Columbia .....	858,836	2.5	7,431	2.9
Manitoba .....	583,392	1.7	2,668	1.1
New Brunswick .....	471,632	1.4	5,961	2.3
Newfoundland .....	61,295	0.2	610	0.2
Nova Scotia .....	878,362	2.6	5,947	2.3
Ontario .....	18,777,815	55.1	167,005	65.4
Prince Edward Island .....	56,988	0.2	462	0.2
Quebec .....	10,122,620	29.7	55,014	21.5
Saskatchewan .....	118,081	0.3	1,503	0.6
<b>TOTAL CANADA</b> .....	<b>32,249,453</b>	<b>94.6</b>	<b>249,912</b>	<b>97.8</b>
United States .....	1,371,354	4.0	4,054	1.6
Other Foreign .....	454,193	1.4	1,483	0.6
<b>TOTAL FOREIGN</b> .....	<b>1,825,547</b>	<b>5.4</b>	<b>5,537</b>	<b>2.2</b>
<b>GRAND TOTAL</b> .....	<b>34,075,000</b>	<b>100.0</b>	<b>255,449</b>	<b>100.0</b>

HOUSE OF COMMONS  
First Session—Twenty-seventh Parliament  
1966-1967

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STANDING COMMITTEE  
ON  
**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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MINUTES OF PROCEEDINGS AND EVIDENCE

No. 43

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TUESDAY, APRIL 11, 1967

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Respecting

The Annual Report of Air Canada for 1966  
The Capital Budget of Air Canada for the year  
ending December 31, 1967  
The Auditors' Report to Parliament for 1966  
in respect of Air Canada

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WITNESSES:

*Representing Air Canada:* Mr. G. R. McGregor, President, Mr. W. S. Harvey, Senior Vice-President; *Representing the Auditors Touche, Ross, Bailey and Smart:* Mr. J. W. Beech, F.C.A.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard,

and

<sup>1</sup> Mr. Andras,	Mr. Howe (Wellington-	Mr. Pascoe,
Mr. Bell ( <i>Saint John-</i>	<i>Huron</i> ),	Mr. Reid,
Albert),	Mr. Jamieson,	<sup>1</sup> Mrs. Rideout,
<sup>4</sup> Mr. Byrne,	Mr. MacEwan,	Mr. Rock,
Mr. Cantelon,	Mr. McWilliam,	Mr. Schreyer,
Mr. Clermont,	Mr. Nowlan,	Mr. Sherman,
<sup>3</sup> Mr. Deachman,	Mr. O'Keefe,	Mr. Southam—25.
<sup>6</sup> Mr. Groos,	Mr. Olson,	
Mr. Horner ( <i>Acadia</i> ),	<sup>5</sup> Mr. Orlikow,	

(Quorum 13)

R. C. Virr,  
*Clerk of the Committee.*

<sup>1</sup> Replaced Mr. Habel on April 5, 1967.

<sup>2</sup> Replaced Mr. Émard on April 5, 1967.

<sup>3</sup> Replaced Mr. Lind on April 5, 1967.

<sup>4</sup> Replaced Mr. Orange on April 5, 1967.

<sup>5</sup> Replaced Mr. Howard on April 7, 1967.

<sup>6</sup> Replaced Mr. Blouin on April 12, 1967.

## ORDERS OF REFERENCE

TUESDAY, April 4, 1967.

*Ordered*—That the Capital Budget of Air Canada for the year ending December 31st, 1967, tabled March 3, 1967, the Annual Report of Air Canada for 1966 and the Auditors' Report to Parliament for 1966 in respect of Air Canada, both tabled on March 17, 1967, be referred to the Standing Committee on Transport and Communications.

WEDNESDAY, April 5, 1967.

*Ordered*—That the names of Mrs. Rideout and Messrs. Andras, Deachman, and Byrne be substituted for those of Messrs. Habel, Émard, Lind, and Orange on the Standing Committee on Transport and Communications.

FRIDAY, April 7, 1967.

*Ordered*—That the name of Mr. Orlikow be substituted for that of Mr. Howard on the Standing Committee on Transport and Communications.

TUESDAY, April 11, 1967.

*Ordered*—That the Standing Committee on Transport and Communications be empowered to sit while the House is sitting to meet the convenience of out-of-town witnesses when they appear.

WEDNESDAY, April 12, 1967.

*Ordered*,—That the name of Mr. Groos be substituted for that of Mr. Blouin on the Standing Committee on Transport and Communications.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*

## REPORT TO THE HOUSE

APRIL 11, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### FIFTEENTH REPORT

Your Committee recommends that it be empowered to sit while the House is sitting to meet the convenience of out-of-town witnesses when they appear.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

(Concurred in April 11, 1967)



## MINUTES OF PROCEEDINGS

TUESDAY, April 11, 1967.

(75)

The Standing Committee on Transport and Communications met this day at 10:05 o'clock a.m. The Chairman, Mr. Macaluso, presided.

*Members present:* Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Byrne, Cantelon, Deachman, Howe (*Wellington-Huron*), Jamieson, Lessard, Macaluso, MacEwan, McWilliam, Orlikow, Reid, Rock, Schreyer, Sherman—(16).

*In attendance: Representing Air Canada:* Mr. G. R. McGregor, President, Mr. W. S. Harvey, Senior Vice President—Finance, Mr. H. W. Seagrim, Executive Vice President, Mr. H. D. Laing, Assistant Vice President—Finance, Mr. J. W. Beech, F.C.A., Touche, Ross, Bailey and Smart.

The Chairman informed the members that the Committee had for consideration the Capital Budget of Air Canada for the year ending December 31, 1967, the Annual Report, of Air Canada for 1966 and the Auditors' Report to Parliament for 1966 in respect of Air Canada. Mr. Macaluso introduced the officials of Air Canada and invited the President to make an introductory statement.

Mr. McGregor made a brief statement concerning the 1966 Annual Report.

Moved by Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*),

*Resolved*,—That the Annual Report of Air Canada for the year 1966 be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See foot-note*).

Air Canada officials were questioned regarding the operations of Air Canada and the Annual Report for 1966 and the Capital Budget for 1967.

Moved by Mr. Bell, seconded by Mr. Lessard,

*Resolved*,—That the number of printed copies of the Minutes of Proceedings and Evidence of the Standing Committee on Transport and Communications be reduced to 1000 English and 750 French copies from 1500 English and 1000 French.

Moved by Mr. Deachman, seconded by Mr. Reid,

*Resolved*,—That the Committee seek authority from the House to sit while the House is sitting for the purpose of hearing out-of-town witnesses.

Moved by Mr. Cantelon, seconded by Mr. Sherman,

That Mr. Lessard be re-elected Vice-Chairman of the Committee. Motion unanimously agreed to.

At 12.30 o'clock p.m., the Committee adjourned until Orders of the Day were called at approximately 3:30 p.m.

## AFTERNOON SITTING

(76)

The Standing Committee on Transport and Communications met this day at 3:35 o'clock p.m. The Chairman, Mr. Macaluso, presided.

*Members present:* Mrs. Rideout and Messrs. Bell (*Saint John-Albert*), Blouin, Byrne, Cantelon, Clermont, Howe (*Wellington-Huron*), Jamieson, Lessard, Macaluso, MacEwan, McWilliam, O'Keefe, Orlikow, Reid, Rock, Schreyer, Sherman, Southam (19).

*Also present:* Mr. Herb Gray, M.P.

*In attendance:* Same as morning sitting.

The questioning of the witnesses continued. Mr. McGregor undertook to obtain additional information regarding questions asked and to forward replies to the Clerk of the Committee. (*See Appendix A-45*).

And the questioning of the Air Canada officials being concluded, the Chairman introduced Mr. Beech who responded to questions regarding the Auditors' Report.

On motion of Mr. Lessard, seconded by Mr. Bell (*Saint John-Albert*), the Committee accepted the 1966 Annual Report of Air Canada.

On motion of Mr. Reid, seconded by Mr. Bell, the Committee accepted the Capital Budget for the year ending December 31, 1967.

On motion of Mr. Byrne, seconded by Mr. Bell, the Committee accepted the Auditors' Report to Parliament for 1966 in respect of Air Canada.

The Chairman was then authorized to report the references under discussion back to the House.

At 6:10 o'clock p.m. the Committee adjourned to the call of the Chair.

\*NOTE—Because this document has already been tabled in the House on March 17, 1967 and had been distributed to all members of Parliament, it was not considered necessary to print it.

R. V. Virr,  
*Clerk of the Committee.*

## EVIDENCE

(Recorded by Electronic Apparatus)

TUESDAY, April 11, 1967.

The CHAIRMAN: Gentlemen, if it meets with your approval, we will commence with a statement by the President of Air Canada.

I would like to introduce Mr. G. R. McGregor, President of Air Canada; Mr. W. S. Harvey, Senior Vice President, Finance; Mr. H. W. Seagrim, Executive Vice President; Mr. H. D. Laing, Ass't Vice President-Finance; and Mr. John W. Beech of Touche, Ross, Bailey and Smart, chartered accounts.

We are dealing with the Annual Report of Air Canada for 1966, the Capital Budget of 1967 and the 1966 Auditors' Report.

I will call on Mr. McGregor to make his opening statement before we commence our questioning.

Mr. G. R. MCGREGOR (*President, Air Canada*): Thank you, Mr. Chairman. On page three of the report there is a brief review of the statistics of the year and the meat of the rest of the report is on page 22, Statement of Income. Then, on the final page there are significant statistics summarized as between 1965 and 1966 and the percentage changes.

Mr. Chairman, I think those three pages that I have referred to are of very great interest. I can go into more detail as the questioning proceeds, if you would like to take the report as read.

Mr. LESSARD: I move that the Annual Report of Air Canada for the year 1966 be made an appendix to today's Minutes of Proceedings and Evidence.

Mr. BELL (*Saint John-Albert*): I second the motion.

Motion agreed to.

The CHAIRMAN: Gentlemen, we will follow our normal procedure of questioning, which will be in rotation. Will you proceed, Mr. Sherman?

Mr. SHERMAN: Thank you, Mr. Chairman. Mr. McGregor, first of all, I would like to compliment you and your colleagues, sir, on the Annual Report of Air Canada for 1966. It is certainly attractive and seems to be an efficient piece of work.

My main interest at the present time, where Air Canada is concerned, is in respect of the situation in Winnipeg and western Canada, in general, with respect to Air Canada's services. With your indulgence, sir, and that of the Chairman, I will, if I may confine my questioning, at least on the first round, to this area.

We in Winnipeg have the impression that the Viscount overhaul base there, with the capability that it possesses for doing overhaul and maintenance work on certain jets and aircraft fleets is lying fallow at some considerable expense,



causing considerable unhappiness in our community, while the facilities in Montreal, particularly at Dorval Airport, for aircraft overhaul and maintenance are being expanded and extended. We feel that this is somewhat in contravention to assurances and undertakings that have been given in the past.

What is the situation in respect of the Winnipeg overhaul base vis-à-vis Dorval at the present time? Reports reaching me, sir, say that the Dorval base is being expanded and enlarged and, to my knowledge, the Winnipeg base is not being used to its capability. It seems to me that this is contrary to the best interests of both Air Canada and the nation.

Mr. MCGREGOR: Mr. Sherman, it is not easy to get a full understanding quickly of this situation. You referred to a jet capability at the Winnipeg base. There is none. It has never overhauled either jet engines or jet aircraft, and it would require a rebuilding operation to do so. You say that Dorval is being expanded. That is not correct either. Plans are entertained for the expansion of the Dorval base to carry on with additional aircraft of the types that are already being overhauled there, the DC-8's and the DC-9. So far as the economy, with respect to the Company is concerned, if the Winnipeg base and the Dorval base become consolidated, as has been done with all the major air lines that I can think of in the United States, then the economy realized by the Company will be extensive because supervision will not be duplicated any longer. At the present time, the Winnipeg base is handling the overhaul requirements for 39 Viscounts and their Dart engines. Does that answer your question, Mr. Sherman?

Mr. SHERMAN: It does to a degree, sir, except that my information is that there is a steady flow of Air Canada personnel, with their families, from Winnipeg to Montreal. I am referring to personnel connected with the Air Canada base and Air Canada operations in Winnipeg. Some people may consider this a beneficial move but a great many do not. Some people like living where they have been living, where their roots are and where their connections are. There is a great deal of unhappiness amongst Air Canada personnel and families in Winnipeg, if not over the prospect of being moved to another part of the country, at least over the climate of indecision and insecurity that surrounds their positions there.

Mr. MCGREGOR: Mr. Sherman, I would like to speak to that point too. First of all, there is a great deal of rumour about this. We had 978 people in maintenance and overhaul at the end of 1965, 997 in December, 1966, 997 in February, 1967, and 1,004 in January, 1967. That does not show a very great leakage.

Mr. SHERMAN: Are these personnel engaged in maintenance and overhaul only?

Mr. MCGREGOR: Yes.

Mr. SHERMAN: At the Viscount base that is the subject of controversy in the continuing dispute?

Mr. MCGREGOR: That is correct. We can give you the figures right through the piece or we can give you the other departmental figures. I know they are not of interest to you at this stage, but there has been a steady growth in Mr. Harvey's Department in Winnipeg and this will continue, so far as I know. The payroll has gone up very substantially over the same period of years.

There is also another point that I would like to make here. If a job is open in Dorval, which is senior in rating to one that is being held in Winnipeg, it is incumbent on the Company under the terms of our contract of employment with the Union, to open that job to bidding by the Winnipeg man or men. Do I make myself clear?

Mr. SHERMAN: So that all personnel in that category in the Winnipeg base have an opportunity to bid on that job. What happens if they do not bid on the job?

Mr. MCGREGOR: If the job must be filled in Dorval, we have to go outside.

Mr. SHERMAN: What happens, though, to an employee's status and an employee's future prospects with the Company if he does not bid on a job that would require moving to Montreal. Does this inhibit his chances?

Mr. MCGREGOR: Not from the Company's standpoint. However it might automatically; I mean, the job might not come open again.

Mr. SHERMAN: I do not know when you last were in Winnipeg.

Mr. MCGREGOR: A year ago.

Mr. SHERMAN: If you came out to Winnipeg tomorrow and talked to the people who work for Air Canada at Winnipeg, particular in connection with this overhaul base, you would find that there is a great deal of dissatisfaction and unrest and I would be interested in knowing to what you would attribute this unrest. I think this unrest, dissatisfaction and unhappiness has probably made itself known to you and manifested itself in other ways in addition to the remarks that I make this morning. I do not presume that I am telling you anything that you do not know. What do you attribute it to, sir? The feeling in Winnipeg is that there has been a gradual erosion, a steady, consistent, deliberate erosion of Winnipeg's position and function as an air centre in Canada, and a steady erosion of its potential as an international air centre because of the shift of emphasis out of Winnipeg into Montreal. We have no quarrel with Montreal; we are all part of Canada and we are delighted to see Montreal prosper and progress too, but we do not believe that one region should progress, necessarily, at the expense of another. We happen to be in a position where we think geography can work for us in this one region of air operations. So, to what do you attribute the climate of unhappiness in Winnipeg over the Air Canada situation?

Mr. MCGREGOR: I think the climate is misread because there is a vocal element in Winnipeg that is really vocal. Certainly, the feeling we get, and we keep in pretty close contact with the situation in Winnipeg, as you might imagine, is that the men feel that they have been fairly dealt with, particularly when more senior positions open at Dorval. In fact, it would be illegal for us not to allow them to bid on these jobs.

Mr. SHERMAN: When you say there is a vocal element, this vocal element is headed by the Honourable Gurney Evans, a former Minister of Industry and Commerce—

Mr. MCGREGOR: I meant among our employees.

Mr. SHERMAN: But there is a vocal element that embraces wide sectors of the community, wide sectors of the population, not just the employees of Air Canada. The Government of Manitoba, through its transportation council, on the instruction of Premier Roblin, has investigated this whole air situation in Winnipeg and Manitoba pretty carefully and the conclusions that the province has come to in this submission with which you are fully familiar dated June, 1965, are fairly powerful and convincing in their contention that Air Canada operations have tended to favour one part of the growth and progress of one part of the country at the expense of another, namely ours.

Mr. MCGREGOR: Mr. Sherman, if you are headed for a consolidated base situation which, as I say every airline that I know is, and we are certainly aiming in that direction, obviously you have got to move from A to B or from B to A. Dorval was selected as the place to build the big jet base, and this was done several years ago on the advice of two good consultants. The present situation was upheld by the Thompson Commission about two and one half years ago, so we feel that we are on pretty firm ground so far as the administration of the problem is concerned.

Mr. SHERMAN: The Thompson Report was conceived in controversy, sir, and born in cynicism, as you know. There is a good deal of argument as to whether the Thompson Report was reworked three or four times before it finally was presented publicly. Nobody in my part of the country is satisfied that the Thompson Report reflects the original opinions of those involved in the investigation. I would appreciate your comments on that and I would like to ask some other questions, but I see that the Chairman is about to bring my questioning to a close for now. May I ask you to comment on my cynical appraisal of the circumstances surrounding the Thompson Report, sir?

Mr. MCGREGOR: So far as I know, the evidence was reported accurately. I do not know about your reference to cynicism. I thought the Thompson enquiry was fair and unbiased. Certainly, none of my conversations with Mr. Thompson gave me any indication that he had anything but a desire to get at the truth, and I think he did.

Mr. SHERMAN: I think he did too but I suggest he may have been inhibited in that job. Certainly the reactions from the Committee formed in Winnipeg by the Hon. Gurney Evans, which includes many of the public officials that I have referred to in general terms in the last few minutes, has never been satisfied with it and is continuing its fight for another look at the situation, as you know. Therefore, it cannot be acceptable in anywhere near general terms.

The CHAIRMAN: We will hear you again in another few minutes.

Mr. SHERMAN: Thank you, sir.

Mr. ORLIKOW: Mr. Chairman, I would like to ask one supplementary question.

The CHAIRMAN: One.

Mr. ORLIKOW: Mr. McGregor, you said that the employees in Winnipeg have the opportunity to bid on jobs that open up and that everyone seems quite happy. You have made it very clear publicly and to the employees that the base



in Winnipeg will only be repairing Viscounts and that the days of the Viscount are numbered; it may be two years, five years or ten years. However, at some point in the not-too-distant future, the Viscount is going to disappear and then there will be no repair base in Winnipeg. What choice will the employees in Winnipeg then have? If they do not accept these openings in Dorval and move, it means that at some point, when the base in Winnipeg closes, they are out of jobs. That being the case, of course they are accepting the vacancies and they are moving. But to say that they are happy seems to me to be an argument full of sophistry.

Mr. McGREGOR: I think that is a very accurate summation of the situation.

Mr. SCHREYER: Do you mean that they are happy to move to Montreal—

Mr. ORLIKOW: They are happy to get a job.

Mr. SCHREYER: Mr. McGregor, I believe you said that every major air line that you know of has confined its jet overhaul capability to one location. Were you referring to the major American air lines?

Mr. McGREGOR: Yes.

Mr. SCHREYER: Canadian Pacific?

Mr. McGREGOR: No, but it would apply to them too.

Mr. SCHREYER: I understand that after 1973 there will be no Viscounts in service with Air Canada. Is that correct?

Mr. McGREGOR: I would say that there would be too few to continue the base. The Thompson Commission pretty well established the minimum point as 30.

Mr. SCHREYER: What are we down to now?

Mr. McGREGOR: We are down to 39.

Mr. SCHREYER: That is, subsequent to the year 1971 or 1972 there would be, according to present plans, no need for an engine overhaul base at Winnipeg, as far as Air Canada is concerned?

Mr. McGREGOR: By Air Canada?

Mr. SCHREYER: Yes.

Mr. McGREGOR: Yes.

Mr. SCHREYER: My information is that two consulting firms, one Canadian and one American, indicated a figure of \$900,000 as being the extra cost of maintaining a split overhaul capability.

Mr. McGREGOR: That sounds familiar. Would you like me to check it?

Mr. SCHREYER: It was just preliminary to my next question. Is it your confirmed or convinced opinion that \$900,000 is too high a price to pay in order to maintain a double location jet overhaul capability in our country?

Mr. McGREGOR: There is no jet overhaul capability at Winnipeg today, but to create one would cost a lot more than \$900,000.

Mr. SCHREYER: Did you submit a figure to the Thompson inquiry?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: Do you recall what it was?

Mr. MCGREGOR: No, but we can find it in a moment.

Mr. SCHREYER: Please do.

Mr. MCGREGOR: We have an approximation. It would be \$16 million in capital expenditure to create one.

Mr. SCHREYER: You say that you are not implementing plans at the present time but that you have plans in progress for the expansion of the base at Dorval?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: How much would this expansion cost amount to?

Mr. MCGREGOR: Dorval was built rather uniquely, with every shop having an outside wall so that any expansion in the jet fleet could be accommodated without a major change in the structure. I would think that over a period of years investment in additional capacity at Dorval would be in the order of some \$3 or \$4 million.

Mr. SCHREYER: I realize that it is not up to one particular crown corporation to take responsibility for the national interest, but would you not agree that there is something quite undesirable about having a technological capability exclusively concentrated in one centre in a country?

Mr. MCGREGOR: It is very desirable from the management's standpoint.

Mr. SCHREYER: It is desirable.

Mr. MCGREGOR: Yes.

Mr. SCHREYER: Are you not impressed at all by the argument that a nation should try to avoid, at considerable cost, if necessary, putting all its eggs in one basket, to use a colloquial expression?

Mr. MCGREGOR: No.

Mr. SCHREYER: I did not anticipate that reply, Mr. Chairman, but while I ponder it I have one or two more questions not related directly to the question of the overhaul base at Winnipeg.

Mr. McGREGOR, with regard to the acquisition by Air Canada of SST transports, the intention is to place a number of orders now. I presume that a number of orders have been placed already. Is that correct?

Mr. MCGREGOR: No. The situation is a little involved with respect to SST. Although everybody has said so, nobody that I know of has actually signed a definitive contract for the purchase of an SST, but what most of the air lines have done is to reserve queue positions with respect either to the British-French consortium aircraft, the Concord, or the U.S. Boeing, or both.

Mr. SCHREYER: But have you not put money on deposit?

Mr. MCGREGOR: In the case of the Concord and the Boeing, yes, but for a queue position, not to buy the airplanes.

Mr. SCHREYER: You have not put any orders in but you have put money on deposit in order to get a queue position. Is that the idea?

Mr. McGREGOR: That is correct.

Mr. SCHREYER: Then it would seem to be the policy of Air Canada to acquire these planes when they become available?

Mr. McGREGOR: Yes.

Mr. SCHREYER: Without going into too much technical detail, could you articulate for us the thinking which prompted Air Canada to get in on this queue position? What is the crying need to get in on the SST's?

Mr. McGREGOR: To be operating against SST's of other air lines, at double the speed of current subsonic jets, would be a hopeless competitive position.

Mr. SCHREYER: Then at the present projected cost of construction of the SST, despite the extremely high costs involved, are you still convinced it is an economic proposition?

Mr. McGREGOR: I am convinced that it will be economic. I am convinced that the SST will carry a premium fare. I am convinced that the operating cost per seat mile of the SST will be higher than the subsonic jets, as we know them today.

Mr. SCHREYER: Did this policy decision relative to SST necessitate making a decision as well with regard to the jumbo planes referred to.

Mr. McGREGOR: No; they are not related.

Mr. SCHREYER: Is it your intention to proceed ahead with both types?

Mr. McGREGOR: A decision has not been taken by either the Board or our technical people with respect to the Jumbo as yet.

Mr. SCHREYER: Then there is no queue position involved?

Mr. McGREGOR: No.

Mr. SCHREYER: Mr. McGregor, I am not sure if I am about to enter an area which involves government policy, but you can decline to answer if you think it to be the case. My question has to do with the decision to allow CPA to acquire additional domestic runs. I understand that the most recent decision of the Department of Transport will mean that Canadian Pacific will increase its share of the domestic air travel market from about 9 per cent to about 25 per cent. Is that correct?

Mr. McGREGOR: It could, over the years. It is a rather involved policy as it stands. CPA has been authorized to double its present capacity on the transcontinental route legs—that is Vancouver to Toronto, roughly.

Mr. SCHREYER: To double in one year?

Mr. McGREGOR: Yes.

Mr. SCHREYER: What will this mean to the efficiency of operation of Air Canada's routes?

Mr. McGREGOR: It should not affect the efficiency although it might affect the gross revenue.

Mr. SCHREYER: I meant efficiency in the sense of employment of capital.



Mr. MCGREGOR: I would think that in the first full year of operation of the double capacity, there might be a diversion of gross revenue from transcontinental services in the order of \$3 million to \$4 millions.

Mr. SCHREYER: So on the basis of this last year's operation it would mean moving from a profit position to one of net loss perhaps?

Mr. MCGREGOR: No, not necessarily.

Mr. SCHREYER: Is my time up, Mr. Chairman.

The CHAIRMAN: For the time being, Mr. Schreyer.

An hon. MEMBER: Mr. Chairman, could I ask a supplementary?

The CHAIRMAN: I think I am going to withdraw my former ruling regarding supplementaries and ask that each member await his turn for questioning.

Mr. BELL (*Saint John-Albert*): The Chairman is pretty tough these days because he just came from the Defence Committee. You had better not get big ideas here because things are moving along fine. We have all day and I am sure that we will make good progress.

The CHAIRMAN: Mr. Bell, I know you and I think alike on these matters so I will just overlook your statement in the cause of good fellowship.

Mrs. RIDEOUT: Mr. McGregor, I am wondering if Air Canada has a regional air policy for the Maritimes.

Mr. MCGREGOR: I am not sure if I understand the question, Mrs. Rideout. We operate all the routes that we are designated to in the Atlantic Provinces.

Mrs. RIDEOUT: I am thinking in terms of convenience for people who use your facilities, and I include myself. I am concerned because, for example, just this morning I learned that the flight I take to go home every weekend is now going to have a three-hour delay in Montreal. And why in the summer time does it take longer to get back to Ottawa than in the winter time? How do you determine your schedules, and what is the reason for this change?

Mr. MCGREGOR: Air line scheduling is a very complicated subject and you probably will find that there are other connections, from Toronto and the West involved in this. Our basic philosophy is to give the most convenient service that we can without being ridiculous in the matter of expense.

Mrs. RIDEOUT: Thank you. However, I still have to sit in the Montreal airport for some considerable time. I notice on page 14 of your report you say that to accommodate the expanding air freight traffic, the air line completed two new air freight terminals, one of which is at Moncton. I recall very clearly when you opened the one at Moncton. Could you tell me how you are contracting for your air freight service in Moncton? Do you contract with Canadian National Railways or do you use a private company?

Mr. MCGREGOR: Do you mean the surface transportation of it?

Mrs. RIDEOUT: Yes, in respect of your air express.

Mr. MCGREGOR: I will have to check. May I look that up for you?

Mrs. RIDEOUT: Yes. What about your freight, is that handled by a private company?

Mr. H. W. SEAGRIM (*Executive Vice-President*): We handle our own air freight entirely.

Mrs. RIDEOUT: Do you mean that is not a private company in Moncton looking after your air freight or express?

Mr. SEAGRIM: Do you mean pick up and delivery?

Mrs. RIDEOUT: Yes.

Mr. SEAGRIM: There is an outside contractor in that connection, I believe.

Mrs. RIDEOUT: What criteria do you use in respect of outside contractors?

Mr. SEAGRIM: In the case of Moncton, I am not sure. The general criteria is the lowest bidder.

Mrs. RIDEOUT: Would you check this out and report later on, please.

Mr. MCGREGOR: Yes, gladly.

Mr. JAMIESON: It may not be possible to answer this question definitively because of your methods of bookkeeping and so on. Does Air Canada make money on its domestic operations within Canada?

Mr. MCGREGOR: On the Transcontinental, yes.

Mr. JAMIESON: Assuming that you were just operating in Canada, would you still be in a profit position?

Mr. MCGREGOR: Yes. The Transcontinental route is profitable.

Mr. JAMIESON: Are the international services, for the most part, profitable to you?

Mr. MCGREGOR: The transatlantic and the southern operations are both profitable, taken together.

Mr. JAMIESON: I am thinking in terms of expansion, because of the necessity to compete on an international basis and the trend mentioned a moment ago in respect of the SST and that kind of thing. I presume, when you said it would be impossible to compete, that you were speaking of competing with other international carriers?

Mr. MCGREGOR: Largely, but also the transcontinental.

Mr. JAMIESON: Here in Canada between yourself, for example, and Canadian Pacific?

Mr. MCGREGOR: Yes.

Mr. JAMIESON: Is Canadian Pacific also in a queue position on these air-planes?

Mr. MCGREGOR: On the Boeing, yes. I do not know that they are on the queue of the Concorde.

Mr. JAMIESON: What would be the practical limitations on the employment of SST's within Canada? You mentioned transcontinental, I presume you are referring to Toronto-Vancouver, or something of that order?

Mr. MCGREGOR: Yes.

Mr. JAMIESON: Do we know enough about these aircraft yet to know whether they are of any value for shorter distances than, for example, Toronto-Vancouver and Montreal-Vancouver?

Mr. MCGREGOR: I would be inclined to doubt it.

Mr. JAMIESON: I certainly do not want to be reactionary and I can appreciate the necessity to be in line for these things, but I am just wondering about the amount of emphasis, in terms of expenditures and so on, which we might anticipate for the future merely in terms of two particular routes whereas, of course, the great need of all of us, I think, around the table is for the shorter distance routes. In other words, are we going to have too much of a weight, in terms of expenditure, effort and the like, on the mere business of just providing this kind of transportation within Canada.

Mr. MCGREGOR: I do not think so, Mr. Jamieson. The same basically applies to the DC-8 today. We can operate it over short legs and do, of necessity, carry on transcontinental flights east of Toronto to Montreal; but basically it is a long-range aircraft and we operate it on the long-range routes. So, I do not see any great basic difference between the DC-8 and the SST.

Mr. JAMIESON: The other point, of course, is the one you mentioned a few moments ago. Generally speaking, your international operations and your operations out of Canada to other countries actually help to finance operations within Canada. In other words, we are not doing this purely for prestige or to be in the game with all of the others?

Mr. MCGREGOR: That is quite right, Mr. Jamieson. It is a great contributor to our basic overhead.

Mr. JAMIESON: I notice that you have moved ahead the depreciation time on the Vanguard?

Mr. MCGREGOR: Yes.

Mr. JAMIESON: Is this purely for bookkeeping purposes or is your depreciation time set to come out at the point at which you think you will be phasing out the Vanguard?

Mr. MCGREGOR: We try to do this. We set the depreciation life on the Viscounts originally at nine years and the Vanguard at 10 years and we came to the conclusion, some time ago, that we had a rather ridiculous situation with respect to the Vanguards because they had been delivered in two or three batches over a long period of time and we had them all arriving at a terminal depreciation position at different dates. So we decided on a common date, which is going to shorten the depreciation time or increase the depreciation rate on some of them. Then we brought the whole thing down to December, 1968, as the common terminal date.

Mr. JAMIESON: 1968?

Mr. MCGREGOR: Yes.

Mr. JAMIESON: Next year?

Mr. MCGREGOR: Yes.



Mr. JAMIESON: That is in respect of the Viscounts?

Mr. MCGREGOR: No, the Vanguards.

Mr. JAMIESON: I am not sure that I follow you on this. This does not mean that they are going to be phased out of service twelve months from now?

Mr. MCGREGOR: No; it means that we will stop depreciating them then.

Mr. JAMIESON: In other words, for all practical purposes you will have written them off by that time?

Mr. MCGREGOR: Down to a residual value of \$50,000.

Mr. JAMIESON: Then this is the price that you would anticipate you could recover from a sale within the foreseeable future?

Mr. MCGREGOR: Yes. We also think that there will be a further investment in the Vanguard fleet to "cargoize" more than the one we have already done.

Mr. JAMIESON: How long do you anticipate that the Vanguards will be in use beyond the point where you have depreciated them to their residual value?

Mr. MCGREGOR: As cargo aircraft?

Mr. JAMIESON: How long will they be an integral part of your over-all passenger service?

Mr. MCGREGOR: I would think that the end of next year might see it through as a passenger aircraft.

Mr. JAMIESON: Hindsight is always easy. Apparently they did not then, because of a variety of circumstances, give you the length of service that the Viscounts did?

Mr. MCGREGOR: No. None of the turboprops have except the Viscount, which we go into very early.

Mr. JAMIESON: I am not asking this in any critical fashion because I am aware that you cannot anticipate these things, but if you had it to do over again, and recalling the questions that were raised at the time about the wisdom of the Vanguard purchase, was it, in your view now, a wise move on the part of Air Canada, or could you have taken another route at that time?

Mr. MCGREGOR: It was the only path available to us because short-range jets had not occurred on the horizon. I do not think that any of us were able to foresee the possibility of economical operation of jet aircraft on 400 mile routes.

Mr. JAMIESON: I will now move on to another area which is not directly related to your budget. I think, that I share with a great many other Canadians, particularly in this Centennial Year, a rather disappointing feeling about the state of the Air Canada facilities in New York. I am assuming that there is going to be a tremendous flow through there this summer, because of Expo. It certainly is not a good doorway to Canada, to use the common expression. What kind of timetable is there for getting us out of that rather scruffy kind of place?

Mr. MCGREGOR: In 1969.

Mr. JAMIESON: Are we in the hands of some American agency, in this regard?

Mr. MCGREGOR: No. We are sharing with BOAC the occupancy of a terminal, the start of which has been viciously delayed by many things, mostly legal.

Mr. JAMIESON: So we have to continue with our present facilities there for another two years?

Mr. MCGREGOR: Yes. We have done our best to brush that place up but it is a hopeless effort.

Mr. JAMIESON: I could not agree more.

I understand the problems that must be faced by you and your Board of Directors in rationalizing your national mandate, if that is the proper word, with your obvious requirement as well to function efficiently and economically in the public interest. I am wondering however, in the light of Mrs. Rideout's question a moment ago, and being regional for a moment, at what point you decide that the interest of the Canadian public is more important than saving money, if you like, or being profitable. Again, while appreciating the difficulties of integrating through routes, if I am using the right term, with trunk routes, and as I believe I was at one time one of your best customers, it does seem that the frustrations of trying to complete the last 100 miles in many parts of this country are enormous. Is there no hope that we can improve this situation?

Mr. MCGREGOR: Yes, I think there is hope and, as traffic builds up, gradually more and more flights are operated from terminus to terminus rather than from terminus to a mid-junction point and then a connecting operation from there.

Mr. JAMIESON: The only thing I have to observe in that connection is that it appears from answers that I have received—courteous ones, I may say, from you and others—with regard to so-called trunk routes, that it seems to be set on some sort of formula. It gives me the impression, anyway, that it is put through a computer and if it comes out at  $16\frac{1}{2}$  passengers per day it justifies such and such a run, if it does not reach that level, then you decide against it. Is there not something else, though, that you have to take into account here, namely the convenience? I think that for a nation's capital, for example, we are woefully badly served in some respects with regard to getting to the main centres where we can pick up transcontinental or other main routes.

Mr. MCGREGOR: I think there is something like ten flights a day from here to Toronto and about eight to Montreal. This is not very bad.

Mr. JAMIESON: While I appreciate the problems of routing, it seems to me sometimes that the whole schedule is put together with a ouija board, in the sense that you find that you do have to hang up very badly at centres like Toronto and Montreal if you are going East or West. Obviously, I am not going to ask you today to be specific, but I would ask you, your Board of Directors and your executives who are here, to give some consideration to the kind of idiotic situation where, if a flight is 15 minutes late coming in, for example, which it can often be, there does not seem to be any way in which even the trunk feeder route can be held up for that length of time, or some co-ordination of the two. I could give you chapter and verse on this, time after time, or not only trying to get here but trying to get to Newfoundland, but I must not take the Committee's time with this sort of thing. I do want to ask you, however, about the Newfoundland

situation for a moment. I gather that eastern Canada will be getting DC-9 service later this year?

Mr. MCGREGOR: I believe so. As soon as we get the DC-9's that will allow us to do it.

Mr. JAMIESON: Can you give any indication as to just when this might be?

Mr. MCGREGOR: Yes; we have a revised schedule of deliveries but they are all late.

Mr. JAMIESON: Does this mean then that we may not get DC-9 service for August, which has been promised or predicted for eastern Canada?

Mr. MCGREGOR: Mr. Jamieson, I do not want to sound facetious but if you could assure me that the Douglas delivery dates are not going to slip anymore, then I can answer the question but I am not certain.

Mr. JAMIESON: In other words, you are strictly in the hands of your suppliers?

Mr. MCGREGOR: That is correct.

Mr. MACEWAN: Mr. Chairman, I would like to ask Mr. McGregor if the DC-9's are operating efficiently?

Mr. MCGREGOR: Very, very pleasantly. Contrary to all our plans, we got delivery of six DC-9's before we got delivery of the simulator to train for them. So we had to do our training on the aircraft themselves, which is a very hard chore for a new aircraft, and they stood up to it beautifully.

Mr. MACEWAN: You are quite satisfied?

Mr. MCGREGOR: Very satisfied.

Mr. MACEWAN: Regionally, again, following up Mr. Jamieson, there were representations made a short time ago to have CPR fly, into the Maritimes area. The Minister of Transport stated that this would not be the case. A Halifax area newspaper, in an editorial which I am sorry I did not bring along, stated, in effect, that the recommendation or the policy followed by the Minister of Transport was the correct one, that Air Canada should be the only flights into that area, but they felt, the Maritime area being more or less a captive area, that we were entitled to a good service. I am going into a matter which, I believe one of my colleagues brought up, DC-9 flights from Halifax to Toronto. I might say that I have taken that flight and have found it most excellent. I found that although I live 75 miles from the Halifax airport, if I leave in the middle of the night I can get that flight and be in here for a day's work. It has left Halifax at 9:00 a.m. but commencing, I believe, on April 29 this flight will leave Halifax at 6:20. Why has this change been made?

Mr. MCGREGOR: First of all, Mr. MacEwan, I think that is a temporary change. Is not the shift forward in that DC-9 from Halifax temporary?

Mr. SEAGRIM: As we get more DC-9's, there will be additional flights.

Mr. MCGREGOR: The basic thing is that in an equipment squeeze, which we and every other air line that I know of are in, we try to work the fleet harder, which means encroaching on the less convenient times.



Mr. MACEWAN: Of course, leaving at that time, it would enable you, I take it, to utilize that DC-9 aircraft to a greater extent.

Mr. MCGREGOR: Yes, exactly.

Mr. MACEWAN: My understanding was that commencing in August of this year the DC-9 would then return to a different schedule, leaving somewhere around 11:30 from Halifax?

Mr. MCGREGOR: I have forgotten the time. I know that I was correct when I suggested that this shift earlier was temporary.

Mr. MACEWAN: Yes. This was due, as was pointed out, to the Douglas Aircraft Company schedule being very far behind.

Mr. MCGREGOR: This has forced us into using devices to increase the utilization of our aircraft, which we do not like because we know that it is not as ideally convenient to our passengers.

Mr. MACEWAN: Was it lately that you, sir, were down to the Boeing plant in the United States. If so, did you have conversations with anyone down there regarding their supersonic aircraft?

Mr. MCGREGOR: No. I attended a presentation by the FAA on the then two U.S. supersonics before the choice was made, which I think was last November or December.

Mr. MACEWAN: I recall reading somewhere that recently you spoke, I believe, to the Canadian Club, and stated that it looked as if the Concorde were ahead of schedule but you had doubts about the Boeing. Is that right?

Mr. MCGREGOR: Yes.

Mr. MACEWAN: And you doubted if it perhaps would get off the ground?

Mr. MCGREGOR: I did not like the headlines, which are never as good as the text, as you know. I did not intend to cast so much positive doubt on the ultimate construction of the Boeing, but I did say that there was an apparent lack of enthusiasm at the executive level in the United States at this time, which I thought might be due to Viet Nam—

Mr. MACEWAN: And apparently financing—

Mr. MCGREGOR: —and an actual drain on the industry.

Mr. MACEWAN: I take it that you are quite satisfied also with the Halifax-Bermuda flights?

Mr. MCGREGOR: Yes.

Mr. MACEWAN: I understand that there are two flights a week now. Are they working out quite well?

Mr. MCGREGOR: Yes.

Mr. MACEWAN: How is the moving sidewalk working in the Montreal airport? Sometimes I come in there and it is moving and sometimes it is not moving. Just how satisfied are you with it?

Mr. MCGREGOR: I think we had better let the Department of Transport answer that question.

Mr. MacEwan: Is Air Canada satisfied with it to date?

Mr. McGregor: We know that there has been interruptions and naturally we do not like this. I take it that it is just like most of the escalators in Place Ville Marie; they are down as often as they are up.

Mr. Bell (*Saint John-Albert*): It is just for older passengers.

Mr. MacEwan: I know. I am over forty now, Mr. Bell, so I am feeling the pinch.

Mr. Orlikow: I would like to return just for a few moments to the question of the overhaul bases at Winnipeg and Montreal. I am not going to take a great deal of time or thrash old straw but it does seem to me, Mr. Chairman, that the policy of Air Canada, as far as I can understand it—and I think I have read everything which has been made public—has been based on straight dollars and cents. I have looked at the costs and I can understand that it would be cheaper to do the whole job at Dorval. I am certainly not competent to get into this argument between the experts who have been brought in on both sides but it does seem to me that this dollars-and-cents approach is in complete conflict with the policies of the federal-provincial governments and with the policies enunciated in every annual report of the Economic Council—the need for regional development and for encouraging skills and training and the use of human resources in all regions of Canada, not just in Toronto and Montreal. I am puzzled as to why Air Canada has been so adamant that this publicly-owned company, financed by people of all Canada, cannot make some kind of contribution to this concept, which is now accepted government policy?

Mr. McGregor: Mr. Orlikow, thinking back over the years, I have been given only one term of reference and that was to keep out of the taxpayers' pockets.

Mr. Orlikow: I know, but the alternative would be that the Department of Manpower, the Unemployment Insurance Commission and other agencies will be paying the money out. The Department of Industry has given a \$5 million outside grant toward building a new chemical plant in Brandon, 135 miles from Winnipeg. It just does not make much sense to me when the left hand of the government does not know what the right hand is doing.

Mr. McGregor: I do not think I should comment on that.

The Chairman: As Mr. McGregor said, Mr. Orlikow, he has got one job only and his job is to see that Air Canada operates in the black.

Mr. Orlikow: I would like to question Mr. McGregor. I can follow the reasoning of Air Canada with respect to the repair base at Montreal when Air Canada was thinking in terms of the DC-8, the long-range jet which flew overseas and so on, because if you had planned to do the overhaul repairs in Winnipeg it would have meant dead heading to Winnipeg and so on. We now have the DC-9, a relatively short-range, efficient jet which is going to be used, I presume, on runs like Ottawa to Winnipeg, Winnipeg to Edmonton and Calgary, Montreal or Toronto to New York and so on. It seems to me that in respect of this kind of airplane, which is not going to make these overseas flights, it would be natural to have an overhaul facility in another area, not Montreal, where

another pool of relatively highly skilled and high-paid people, functioning efficiently for a long period of time, could be utilized to assist another area of the country. What is the objection to that?

Mr. MCGREGOR: First of all, we would have to build a new base at Winnipeg, and a great deal of that would have to be duplication of structure in Montreal.

Mr. ORLIKOW: I understand that the base at Dorval is now working three shifts a day, seven days a week?

Mr. MCGREGOR: It is coming to the verge of its capacity, as presently constructed.

Mr. ORLIKOW: Montreal is an area which has been growing at a tremendous rate. There has been a shortage of skilled people, not solely for Air Canada, and there has been a tremendous expansion in housing, in the need for workers to travel long distances and so on. Is that not so?

Mr. MCGREGOR: I would think so, and probably due to Expo. It is only three years ago that Canadair was letting people out by droves.

Mr. ORLIKOW: But are you not going to have to expand the overhaul base at Dorval?

Mr. MCGREGOR: Within the next two or three years, yes.

Mr. ORLIKOW: That is going to cost a pretty substantial amount of money?

Mr. MCGREGOR: Yes. It will cost about a quarter of what it would cost to build a new jet base at Winnipeg.

Mr. ORLIKOW: A new jet base for all jets?

Mr. MCGREGOR: Just for the DC-9's.

Mr. ORLIKOW: You estimate it will cost \$16 million to build a base just for the DC-9's?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: And how much would it cost at Dorval?

Mr. MCGREGOR: I would guess \$3 million to \$4 million over a period of years.

Mr. ORLIKOW: Why is there this terrific difference?

Mr. MCGREGOR: I explained a little while ago that the Dorval base was built so that it could be expanded cheaply.

Mr. ORLIKOW: Mr. Chairman, I would like to go to a different subject. Mr. McGregor, all flights in Canada combined, does Air Canada make a profit?

Mr. MCGREGOR: Yes. May I add that I am including in that North America, because I am including the trans-borders.

Mr. ORLIKOW: I presume that the transcontinental flights are the bigger money makers?

Mr. MCGREGOR: Yes, by far.

Mr. ORLIKOW: Are there flights which consistently, let us say over a period of one year, lose money?



Mr. MCGREGOR: On a fully allocated cost basis, yes, several of them.

Mr. ORLIKOW: Which flights would those be?

Mr. MCGREGOR: Vancouver to Victoria, Edmonton to Calgary, Seattle, Cleveland, Halifax to Boston, the Great Lakes operations which is the Lakehead, northern Ontario, Toronto-London-Windsor, and eastern Quebec and others.

Mr. ORLIKOW: Without giving an individual breakdown, could you give us some idea of what these would lose in the course of a year?

Mr. MCGREGOR: Yes. Do you want it in total or individually?

Mr. ORLIKOW: In total.

Mr. MCGREGOR: What we call our other North American routes, show on a fully allocated cost basis, a deficit of \$15 million for 1966.

Mr. ORLIKOW: I presume that this \$15 million is recouped, by the main lines?

Mr. MCGREGOR: Yes, and helped by the Atlantic and southern operations.

Mr. ORLIKOW: If you did not have these, you would be making a pretty big profit, unless you reduced certain rates.

Mr. MCGREGOR: If Air Canada was shrunk in size, then many of the costs would spread thicker over the profitable routes, and when I say fully allocated costs, each one of these routes is bearing its share of the operation of the maintenance bases.

Mr. ORLIKOW: So while the saving would not be \$15 million, there would be a saving?

Mr. MCGREGOR: I think this is probably a fair statement. We do two things. We show what a route is doing for us, either plus or minus, on a fully allocated cost basis, and then to consider whether or not it is a good thing to be out of it, we do what we call an abandonment study and the results are very different, as a rule.

Mr. ORLIKOW: So having these routes is part of having a national transportation system?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: I will try to put this in a way so that you can express an opinion on it. It certainly makes a comparison between the relative efficiency of Air Canada, compared with CPA, virtually impossible because CPA is confined, in Canada, to just the trans-continental flight, which is the big profit maker?

Mr. MCGREGOR: That is correct.

Mr. ORLIKOW: I am not going to ask the obvious question which arises out of that, which is whether this is fair. I think this is something which some of us will want to discuss with the Minister of Transport at the appropriate time. I think that is all at this time, Mr. Chairman.

Mr. DEACHMAN: Some months ago, perhaps as long as a year ago, some Vancouver businessmen made very strong representations to you and to your company regarding service between Vancouver and Prairie points, Regina and so

on. Their complaint was that your schedules were such as to delay their operations on the prairies and in companies operating business out of head offices in Vancouver. In the course of a year, this amounted to considerable amounts to them. I received much correspondence on this as they wrote back and forth to you and Mr. Pickersgill and so on. I think probably you recall the incident I am referring to. What has been done about that situation, or are you in a position to say anything about it?

Mr. MCGREGOR: I am afraid that I am not, because, as I recollect it, what were desired at that time were point-to-point flight—Vancouver-Regina, and Vancouver-Saskatoon, and operations of this type—which we can only do when the traffic volume begins to build up to a reasonable percentage of the seats on each flight.

We endeavour to operate the airline at what we call a load factor—which is a percentage of the seats occupied—on an annual average basis of between 63 and 65 per cent. This still leaves 35 per cent of seats unoccupied, but it does mean that when an aircraft is put on what I call a terminus-to-terminus operation the traffic has to be there or it knocks the load factor down.

Mr. DEACHMAN: What is being done on studies which might result in changes of schedules, which would improve that service? Do studies indicate that you may be able to improve that service in the near future, or what precisely can you tell us about the possibilities of improved service for those people?

Mr. MCGREGOR: I like to think that our service has improved continuously. The studies are certainly continued. Every time a schedule-change is coming up our routes are analysed on their actual loads and their potentials.

Mr. DEACHMAN: Is there any more detail on this? That seems to me to be very much of a generalization. Could you give us anything more particular about what effort is being made in that direction?

Mr. MCGREGOR: I do not think that I can. But this is true system-wide.

Mr. DEACHMAN: I want to ask a question about service to Russia. You have inaugurated a new service to Russia quite recently. Are you able to give us any report at this time on how that service is shaping up, the volume of traffic and just what is happening on that route? I think all of us would be interested to hear about that.

Mr. MCGREGOR: The traffic was very bad when we started the service, which was seasonally the worst possible time to start; November and through the winter months. The loads are building up very substantially now. The load factor will be good on the operation, thanks as much as anything to the inclusion of Copenhagen.

Mr. DEACHMAN: Where does that traffic come from, sir? Are we carrying Americans on that line, or just where do you think that traffic originates? Can you give us any idea of what sort of business is going back and forth over the line. Is it largely governmental, or is there business traffic flowing over the line? What does it indicate to you?

Mr. MCGREGOR: I am a little reluctant to comment on that because I have no doubt that the picture is being warped by Expo at the present time. There is a great deal of traffic associated with that. I do not regard 1967 as a good sample year. We have carried quite a large number of Americans; I can remember one group of 53.

Mr. DEACHMAN: I have one more question to ask. I wrote to your company, to the members of your staff, in regard to the "scalping" on United States exchange when buying drinks on your planes. I noticed this on a flight between here and Toronto. An American presented a \$5 United States bill and did not get his exchange back.

Subsequently I asked the stewardesses what was the policy of Air Canada and I discovered that they all had such different ideas about it that I gathered that there really is no policy about the treatment of American exchange. I then wrote to your company saying that any decent store, or any merchant, in Canada would make exchange and would not attempt to "chisel" exchange from Americans who presented United States dollars to them. Some of the explanations I was given by your stewardesses were quite amusing. One said that they could not carry all the pennies. Others said that they would not "scalp" exchange on a five, but they would "scalp" exchange on a one.

I wrote to one of your traffic agents and he wrote me back a letter which indicated that I had been inconvenienced. I assured them I had not been inconvenienced, but that one of our good American customers had been inconvenienced. I wrote a second letter to you.

I just wonder whether you have a policy on whether you are still "scalping". If you are it would be interesting to know what account your are putting it into?

Mr. BELL (*Saint John-Albert*): Wait till Mr. Gordon hears about this new economic nationalism!

Mr. MCGREGOR: I do not know. We cannot be responsible for the treatment any individual gets. The girl may not have had the change; I do not know.

The policy is that on international operations we have no base charges in American currency, as you were probably told in the correspondence: so that there is no "scalping".

Mr. DEACHMAN: No, this was not so. The fact that I am presenting to you is that a passenger who has a few American dollars in his pocket and wants to buy a drink on Air Canada on a domestic flight does not get his exchange. All I say is that in any store or any bar—any place dealing with Americans in Canada—makes it a custom to give a man his exchange first if he presents an American bill and then to let him pay the account.

Mr. MCGREGOR: Mr. Deachman, I think that you are taking an individual, observed case and saying that this is the company policy. It is not.

Mr. DEACHMAN: No; I am talking about several observed cases and because I asked stewardesses along the way. I am quite satisfied that they do not have a policy. Can you, or any of your staff, give us the directive to your stewardesses regarding the handling of American exchange on domestic lines. It would clarify the situation if you would let us know what the directive is.



Mr. MCGREGOR: Mr. Seagrim will speak to this point. We will get the directive for you.

Mr. DEACHMAN: I would like to hear the directive.

The CHAIRMAN: It will be obtained and sent to you, Mr. Deachman. It is not here at the present time.

Mr. DEACHMAN: That is all for now.

Mr. CANTELON: Further to the point that Mr. Deachman was making about scheduling from the coast, of course, I am interested in scheduling from Saskatoon and Regina in Saskatchewan. Just recently changes have been made in the scheduling, which make it very awkward to get from Saskatoon to here. I just wanted to direct your attention to this.

If you leave Saskatoon on the flight which is around 7 o'clock in the morning you do not get here until 6 o'clock at night. That is a rather long period of time and must entail some substantial stop-overs. I am wondering why it seems to be impossible to make connection with the flight that goes from Winnipeg direct to Ottawa. Naturally it concerns us, but I think it concerns a lot of other people, too, who are not members of parliament.

I would like to direct your attention to this fact. I know that there are very serious complaints about it. I realize, too, that perhaps part of the trouble is that you have not been able to get delivery of the DC9's that you hoped to get.

Mr. MCGREGOR: That is correct.

Mr. CANTELON: With respect to the DC9's, I have a very personal opinion. I have been travelling in them off and on, and I find that the pressurization is rather odd. When they are just leaving the ground, for the first thousand feet or so, I find that there is a quite a distinct change in pressure. The same thing occurs when landing. I do not notice that change in anything else but the DC9. I would just like to direct your attention to that fact. Perhaps I am extremely sensitive to pressure, but I have heard other people say the same thing.

Mr. MCGREGOR: Thank you, Mr. Cantelon.

Mr. CANTELON: Politicians are always subject to pressures of all kinds, but not usually straight air-pressure. Those were a couple of special questions that I wanted to ask, but I have some that are rather general.

I would refer you to page 3 of your brief which summarizes your results. This, I am sure, is a matter of judgment on your part and I know that you offer argument on page 5, but I thought you might perhaps elaborate a little. You make percentage changes that are plus in both the passengers carried and the miles you travel and the revenue that you get in ton miles. You also have improved your passenger load factor by .7 per cent and your weight load factor by .8 per cent. Your operating cost has dropped just fractionally, and your total cost per available ton mile has dropped.

The remarkable factor about it is that your average return per passenger mile has decreased and your average return per ton mile for freight has also decreased. You would think, putting together the first two things that I mentioned, that this last factor would have shown and increased profit. As I say, I

know that you give two reasons for this on page 5, and I suppose that these reasons were matters of judgment by management. I am just wondering whether they were good or bad decisions.

Mr. MCGREGOR: If you are talking about the drop in revenue per passenger mile—

Mr. CANTELON: I know that the total revenue has gone up, but the revenue per mile has gone down.

Mr. MCGREGOR: Yes.

Mr. CANTELON: Yet, with these other factors, you would think that it would have improved.

Mr. MCGREGOR: We only have limited control over that. What we call the reduction in yield was largely due to the increased percentage of economy passengers travelling. If people choose to desert first class in favour of economy that drops our yield.

Mr. CANTELON: That is natural enough, because there is not that much difference, I think. If you are buying transportation—which is what most of us are buying—whether it is first class or economy does not make very much difference.

Mr. MCGREGOR: The percentage of economy passengers increased greatly in 1966 over 1965.

Mr. CANTELON: Does it make that much difference in income that it has led to this decrease in the income per mile?

Mr. MCGREGOR: There is a difference of something like 35 per cent.

Mr. CANTELON: The same thing is true, then, of your freight?

Mr. MCGREGOR: No; there is another thing at work there. Freight rates are related to the size of the shipment. Also there is what we call commodity rates.

Mr. CANTELON: You mention these two also on page 5.

Mr. MCGREGOR: Yes; they tend to bring it down. There was no basic lowering of the individual freight rates except in the case of commodities.

Mr. CANTELON: You provided another service, too, did you not, because you put in some all-freight carriers.

Mr. MCGREGOR: Two DC8's and one Vanguard.

Mr. CANTELON: This increased your total business, but it actually decreased your profit?

Mr. MCGREGOR: Yes.

Mr. CANTELON: But it still increased your total profit.

Mr. MCGREGOR: That is correct.

Mr. CANTELON: That is what I had in mind.

Mr. BELL (*Saint John-Albert*): Mr. Chairman may I begin by asking when was the last time Air Canada appeared before this Committee?

Mr. MCGREGOR: It was in the 1963 Annual Report.

Mr. BELL (*Saint John-Albert*): It has been quite a while. I do not mean to suggest that I am going back to 1963, but just as a matter of record it was some time ago—and not through the fault of Air Canada, either. I did not mean to imply anything bad when I said that.

The CHAIRMAN: We had Air Canada's report referred to us last year, but with the CPR passenger service and with the national transportation bill we never did get to Air Canada's annual report of 1965. The auditor's report and budget were referred to us on July 11, 1966, but we were never able to get to them.

Mr. BELL (*Saint John-Albert*): This is due to the distorted sessions, and I am not casting any aspersions. I am delighted Mr. McGregor is here now. It has been some time since I have been on the Committee, but I have always felt that he is a very good witness, particularly compared to some of these railway chiefs who give us very long, glossy answers and with whom we do not have a chance to get down to some serious questioning. I am glad you are here, Mr. McGregor, and I hope that you make many more appearances.

Mr. MCGREGOR: Thank you.

Mr. BELL (*Saint John-Albert*): In going back over records, I noticed that in 1962, I think it was, there was considerable discussion—and some thought it was premature—about the availability of aircraft for Expo. At that time you were very confident that you could fulfil most demands of Expo. That has not taken place, and we notice that the new rights that have been given to CPA seem to be predicated on the big demand for Expo this year.

Mr. MCGREGOR: That may be; I do not know, really. However, last year (1966) 5 U.S. trunk carriers struck for 42 days. That put a tremendous additional load of transcontinental traffic on Air Canada, which it met—not without pain, but it met it.

It is unquestionably the case that we are going to be put very much on our mettle this summer, but I do not think that it is going to be very much worse than it was during the 42-day strike.

Mr. BELL (*Saint John-Albert*): What I am trying to get at—and other members have touched on it—is the availability of aircraft. In other words, it might be fair to say that because of the unprecedented demands of Expo, coupled with the difficulty of the Douglas Company in the United States, you are now a victim of some of the new concessions that have been given to CPA this year.

Mr. MCGREGOR: I do not like to appear as a victim, but certainly if revenue dollars that would have gone to Air Canada, had it had the capacity, and had the inclination on the passengers' part been to come to us, are going elsewhere, that is going to affect the company.

Mr. BELL (*Saint John-Albert*): It certainly was not foreseen in 1962, when you made the statement about the optimism that you had about Expo?

Mr. MCGREGOR: That is right.

Mr. BELL (*Saint John-Albert*): I notice that the charters now seem to be out, and I wonder if you could just state your policy about charter flights now, and the change that has taken place in the last year or two?



Mr. MCGREGOR: We regard ourselves primarily as a scheduled airline. Unfortunately, this charter business tends to peak just exactly when the normal traffic is at a peak. Given the choice between operating a charter and operating a scheduled operation, we would choose a scheduled one.

Mr. BYRNE: Do you have any figure for different airlines in other countries for comparative purposes? I am thinking in two or three levels of interest—their financial statements, passenger miles and revenue; and I would also like to find out about the availability of aircraft. I am not questioning Air Canada in any respect on the use that you are making of the planes that are available. I am just wondering whether Canada, as a country so oriented to the air on account of its geography, should be making greater plans to have aircraft available for emergencies, or for special occasions.

Mr. MCGREGOR: We try to run the airline as a business should be run, which does not allow you to have many \$9 million aircraft waiting around for a job. That is our conception of our job.

If you are suggesting that we should be entertaining purchase plans that would produce a slacker situation, we are, and there are a lot of aircraft on order, but they are not here.

Mr. BELL (*Saint John-Albert*): On those figures that you have for other countries, for example, I noticed in the press that BOAC had a tremendous year profit-wise, if I recall correctly. Generally, what does this really mean? How should one interpret that?

Mr. MCGREGOR: One should remember that BOAC was previously operating with an accumulated deficit brought forward, and that was written off between 1965 and 1966, which improved the situation greatly.

Mr. BELL (*Saint John-Albert*): I think Mr. Harvey has some figures. Do they show that our expansion has been comparable with the expansion of national air lines in other countries, for example?

Mr. MCGREGOR: I would think so; 16 per cent in 1966 over 1965. I think that is about average.

Mr. BELL (*Saint John-Albert*): Is there any readily available table that could be put on the record? I do not want you to go to too much trouble, but I am just wondering how we compare in size and expansion. Is our trend good?

Mr. MCGREGOR: Yes; I think that we could put on the record the report of the International Air Transport Association. It is not confidential. It would give you the comparison you want, I think.

Mr. BELL (*Saint John-Albert*): Do most other countries have a separate air ministry?

Mr. MCGREGOR: I think "most" is the right word, yes.

Mr. BELL (*Saint John-Albert*): You feel, yourself, according to a speech, or remarks, that you made to the Halifax Board of Trade, that it might be desirable in a country like Canada, because of the conflict between the domestic and feeder and national and international lines, to have a separate air ministry?

Mr. MCGREGOR: Yes, I think I do.

Mr. BELL (*Saint John-Albert*): That is against the government policy, of course, of unifying everything these days.

The CHAIRMAN: I think we should get off that topic.

Mr. BELL (*Saint John-Albert*): I might say, Mr. McGregor, that I am in somewhat the same boat. I do not believe in unification of the armed forces, but I believe that the transport department, contrary to your opinion, should stay unified.

Mr. MCGREGOR: I did not suggest that it should not. I was talking about the breaking out of aviation from the whole transport portfolio.

Mr. BELL (*Saint John-Albert*): What it would mean to me would be a conflict of interest between the different carriers that only one minister could handle in a final way as far as decisions are concerned.

Mr. MCGREGOR: That is the situation now, I think.

Mr. BELL (*Saint John-Albert*): We hope that the new Transport Commission is going to make a difference.

My other question was a parochial one about Saint John airport. It has been my understanding that in Saint John, New Brunswick, many of the flights are cancelled because of the winds. This is separate from the fog, which we will not go into. I am wondering if we can hope for any improvement with the new full jets and their ability to get through wind? It is fair to assume that if the time ever comes when we have the big, new, full jets they might not have the same difficulty with the cross-winds that come off the Bay of Fundy?

Mr. MCGREGOR: I am going to ask Mr. Seagrim to answer that question because he is an ex-operating man. However, I do not think it has anything to do with it; I think it is directional.

Mr. H. W. SEAGRIM (*Executive Vice President, Air Canada*): Actually the new jets, particularly the DC-9 and the DC-8 can withstand a greater cross-wind component than the older propeller-driven airplanes such as the Vanguard and the Viscount; but they are still limited to a cross-wind component in the order of 25 to 28 miles an hour.

Mr. BELL (*Saint John-Albert*): There might be a little hope, then, in the future?

Mr. SEAGRIM: There would be some improvement; not a great deal.

Mr. BELL (*Saint John-Albert*): What hope is there of licking the fog?

Mr. MCGREGOR: Good progress is being made in blind landing situations.

Mr. BELL (*Saint John-Albert*): Let us hope that it can be done in the future, so that Saint John can become a major international airport.

I have just one question on the financial statement—

The CHAIRMAN: We will be calling the auditor on that.

Mr. BELL (*Saint John-Albert*): Oh, yes; that will be better later. Thank you.

Mr. BYRNE: Mr. McGregor, perhaps this question could be better answered by a man who has been in the operational field, but could you tell me what are

the main elements contributing to the efficiency of the DC-9, for instance, over the Vanguard?

Mr. MCGREGOR: I always feel shivers up my back when this word "efficiency" is used. Do you mean technically satisfactory in operation?

Mr. BYRNE: Well, economically?

Mr. MCGREGOR: Jet engines, because they are basically simple and because they burn a cheap fuel, provide power more efficiently and more satisfactorily than do propellers; and then there is the advantage of not having to maintain propellers.

Mr. SEAGRIM: May I mention another factor, namely that the DC-9, particularly the stretched DC-9, goes half as fast again as the Vanguard, for example, and carries almost as many people; and it has only two engines.

Mr. BYRNE: I must confess that I am a little surprised that this matter of pressurization has not been brought to your attention. I have noticed it. I did not intend to bring it up publicly. I thought I had mentioned it to someone. There is a considerable difference in the comfort as compared to the DC-8.

Do you anticipate any improvement in the profit picture in your regional service with the advent of jets?

Mr. MCGREGOR: I am afraid that I cannot hold out very much hope. If we are talking about the introduction of jets in regional operations, there would be some improvement in the profit position from that very fact alone; but I do not regard a regional operation as being big enough for a DC-9, for example. Traditionally, these other North American routes have lost money, and do so in larger quantities.

Mr. BYRNE: Is there any indication that Canadian Pacific Airlines would be reluctant to take over their share of the regional services.

Mr. MCGREGOR: Yes; many indications that they would be reluctant. In fact, they have given up, or sold, I think, about three routes in western Canada.

Mr. BYRNE: Mr. Orlikow raised a question which, in my opinion, is a very important one. In miles, how do your regional services and your trans-Canada services compare with Canadian Pacific's regional services and trans-Canada services. Is there any estimate available?

Mr. MCGREGOR: Are we talking of route miles?

Mr. BYRNE: Yes; route miles, not passenger miles.

Mr. MCGREGOR: Their proportion of regional type operation is very much smaller than ours. I can get the figures for you.

Mr. BYRNE: Yes; but up to the moment so is at least their trans-Canada operation.

Mr. MCGREGOR: Yes; that is why I said their proportion is smaller.

Mr. BYRNE: Much smaller?

Mr. MCGREGOR: Yes. We can get the figures for you.



Mr. BYRNE: Does Air Canada—and I suppose this would apply to other competing airlines—consider a 65.9 per cent passenger load factor acceptable. Is any research being done to endeavour to overcome this.

Mr. MCGREGOR: No. We think that it is not only acceptable but almost a necessary figure if the quality of service is going to be reasonably good. You see, this is an average taken over a year, and over the whole system. If that figure rises, as it does in the summer months, it means that the chances of a customer getting the flight of his choice diminishes, and this is a deterioration in the service. We have operated at very much higher load factors for a short period of time, but always with the knowledge that we are denying a certain proportion of our customers the right to get on the flight of their choice.

Mr. BYRNE: Do you separate the cost of first class and economy services?

Mr. MCGREGOR: No.

Mr. BYRNE: You have said that the domestic services are profitable in Canada—that is, without the international service?

Mr. MCGREGOR: Yes; I modified that to North America.

Mr. BYRNE: Some mention was made of BOAC, comparing its increase in profit this year. BOAC is essentially an overseas, long-distance line?

Mr. MCGREGOR: Yes. I think their shortest run is London-Rome.

Mr. BYRNE: They do not fly to Paris?

Mr. MCGREGOR: No.

Mr. BYRNE: That is all I have to ask.

Mr. ROCK: Mr. McGregor, in your report, you state that a series of strikes had a significant impact on traffic growth, and you state that the strike that you had offset this. Could you elaborate on the amount of the losses in dollars and cents?

Mr. MCGREGOR: I can give you our figures, but we have to assume that we would not have had this inflow of United States traffic that came from, say, Seattle to Vancouver to Toronto to New York, if those United States lines had not been struck. It is not necessarily a valid assumption.

On that basis we believe that we fell heir to \$3,500,000 worth of United States business which otherwise would have stayed on the United States air lines. In the case of the Canadian railway strike, \$900,000; and we estimated that our own I.A.M. strike cost us \$3,700,000. Therefore, the net effect of the strikes, one way or the other, was a plus of \$700,000.

Mr. JAMIESON: That is revenue?

The CHAIRMAN: Net revenue.

Mr. JAMIESON: I am sorry; I did not want to interrupt. I wanted to be clear on what he had said. These are sales you picked up, or sales that you lost.

Mr. MCGREGOR: That is right, net effect.

Mr. ROCK: In regard to CPA doubling their flights to British Columbia, you said that there would be a diversion of around \$3 million. Does this \$3 million of

business that you feel would be diverted to CPA take into account the possible increase during Centennial and Expo?

Mr. MCGREGOR: Yes.

Mr. ROCK: This has been taken into account. You feel that because of this increase CPA will have quite a bit of extra business, but on top of that you believe that there will also be a diversion of about \$3 million worth of business.

Mr. MCGREGOR: Let us be careful. I do not know when CPA is going to put on this additional capacity, or whether or not they are going to be operating it this summer.

Mr. ROCK: Does anyone know whether they are going to operate it this summer.

Mr. MCGREGOR: I guess we will have to ask CPA, Mr. Rock.

Mr. ROCK: Have you any idea what the anticipated increase of traffic will be because of Expo and Centennial year?

Mr. MCGREGOR: We have a forecast. We are estimating an over-all growth of passenger traffic of 24 per cent.

Mr. ROCK: Twenty four per cent. Last year you had an increase of about 25 per cent, and on top of that you expect an increase of 24 to 25 per cent, then?

Mr. MCGREGOR: I do not think that last year was as good as that; this 24 per cent is 1967 over 1966.

Mr. ROCK: I believe that you show in your report a gross increase of around 25 per cent.

Mr. MCGREGOR: On page 3 we show passenger miles up 17 per cent.

Mr. ROCK: I have looked at page 7, and I am just taking a 24 to 25 per cent because you state that you have an increase of 26 per cent, and you have something lower at 22 per cent, and you have a substantial increase of 28 per cent, depending on the routes; but you believe that there was a 17 per cent increase last year, then?

Mr. MCGREGOR: Yes.

Mr. ROCK: And the increase for 1967 would be around 24 per cent?

Mr. MCGREGOR: That is correct.

Mr. ROCK: You believe this is due to Expo.

Mr. MCGREGOR: It is included in that 24 per cent. There would have been growth without Expo, I am sure.

Mr. ROCK: Yes, I see.

Mr. JAMIESON: More than 17 per cent?

Mr. MCGREGOR: Probably.

Mr. ROCK: I understand that delivery on some of your aircraft is late. Does this mean that you will have to prolong the service of some of your Viscounts and Vanguards during Expo year?

Mr. MCGREGOR: Yes, they are going to be prolonged, but they would have been anyway, I think.

Mr. ROCK: I see. In remarks you made about the flight that goes to Copenhagen and Moscow, you stated that there has been an increase since you have had the right to stop off at Copenhagen.

Mr. MCGREGOR: We started with that right.

Mr. ROCK: I see.

Mr. MCGREGOR: What we are now beginning to feel is the normal seasonal fluctuation upwards. As I said, the stop at Copenhagen substantially improves the growth on the west leg of the run.

Mr. ROCK: Of course, Russian aircraft are also coming into Montreal.

Mr. MCGREGOR: Yes.

Mr. ROCK: Could you tell me who usually takes the Canadian plane, and who usually takes the Russian plane? What I want to know is whether the western people usually take the Air Canada flights and the Russian people take the Russian flights?

Mr. MCGREGOR: This seems to be the pattern. You see, Intourist directs the method of transportation of Russian nationals, and it is not surprising that they direct them to their own.

Mr. JAMIESON: Would you like to have that over here?

Mr. MCGREGOR: That would be dandy!

Mr. ROCK: That will be all for now. Thank you very much, Mr. McGregor.

Mr. REID: Mr. McGregor, could you give me the percentage profit that Air Canada made last year and in 1965 on its invested capital?

Mr. MCGREGOR: Yes. In 1965 it was 6 per cent and in 1966, 5½ per cent.

Mr. REID: What percentage do you aim for? Do you aim for about 6 to 8 per cent, or lower?

Mr. MCGREGOR: We would like to see it higher, of course.

Mr. REID: What is the average for the industry in the United States?

Mr. MCGREGOR: I do not know that we could give you that. It is certainly higher than that.

Mr. REID: What is the reason for this? Is it because they operate in a more heavily populated area and have built up traffic over a longer period?

Mr. MCGREGOR: And longer routes, yes.

Mr. REID: Is one of the keys to profitability in the air line business the length of route?

Mr. MCGREGOR: Very definitely.

Mr. REID: In other words, every time you make a stop it costs money.

Mr. MCGREGOR: This is an oversimplification. The air lines that have difficulty have a high proportion of short legs in their route patterns.

Mr. REID: Moving now to the jumbo jets and the SSTs, there have been some comments, both in the House and in the press, concerning the preparedness of the various air facilities that are required. Has Air Canada been in negotiation at all with DOT regarding air facilities to provide for these new jets.



Mr. MCGREGOR: Yes. Air Canada is in constant contact with the DOT. I mean, the Concorde is the first one that is going to be—

Mr. REID: You have no plans to acquire jumbo jets at the present time?

Mr. MCGREGOR: No.

Mr. REID: Do you know of any American air line that perhaps may acquire one, which they may be intending to fly into Canada?

Mr. MCGREGOR: Boeing 747's have been ordered by several American airlines, as far as I know. What their operating plans will be I do not know. It is going to require a very dense traffic route to justify them, I think.

Mr. REID: Does Air Canada in its relationship with DOT occasionally prepare a list of its requirements?

Mr. MCGREGOR: Once a year.

Mr. REID: About what time of the year?

Mr. MCGREGOR: October.

Mr. REID: What success have you had with DOT in having your requirements met?

Mr. MCGREGOR: What happens is that we put down everything that we would like to see built. That cloth is cut to the financial exigencies of the moment, but it usually means that eventually we get what we have asked for.

Mr. REID: Over a period of years.

Mr. MCGREGOR: Yes.

Mr. REID: This information, I suppose, would include the increase in passenger traffic which you would expect and the requirements you would need?

Mr. MCGREGOR: Yes.

Mr. REID: Dealing further with that subject, how much does Air Canada pay DOT for its counter space at Toronto or Montreal?

Mr. MCGREGOR: Too much. It changes by terminals, but some of the rates are quite surprising. We will table it, if you want.

Mr. REID: Yes, that would be very much appreciated. Is this charge made by the square foot?

Mr. MCGREGOR: Yes.

Mr. REID: Is it based on the amount of traffic that goes through?

Mr. MCGREGOR: No.

Mr. REID: Then what would be the basis for the charge, would it be on the cost of building the terminal?

Mr. MCGREGOR: I think it is based on the cost of the terminal.

The CHAIRMAN: The cost of the terminal and the space that is taken by Air Canada.

Mr. MCGREGOR: Yes, but all carriers pay the same rate for a square foot of counter space.

Mr. JAMIESON: You get no concession at all?

Mr. MCGREGOR: No.

The CHAIRMAN: It is on the same basis as the rent-a-car space.

Mr. REID: Do you provide your own ramp equipment or is that provided?

Mr. MCGREGOR: No, we provide it.

Mr. REID: You provide that yourself plus the storage facilities, and so on. Is there a landing charge at Toronto and Montreal?

Mr. MCGREGOR: At all airports.

Mr. REID: How much is it at Montreal and Toronto?

Mr. MCGREGOR: It varies with the weight of the aircraft. At all DOT airports on domestic flights a Viscount costs \$15.50 to land, a Vanguard costs \$42.60, a DC-8 costs \$93.00 and a DC-9 costs \$21.50.

Mr. REID: And it is based upon the weight of the aircraft?

Mr. MCGREGOR: Yes.

Mr. REID: Does this pay for the cost of the upkeep of the airport?

Mr. MCGREGOR: I have no idea. I would not think so.

Mr. REID: Do we operate those air terminals at a loss or at a break-even point?

The CHAIRMAN: That is a question for the DOT, Mr. Reid.

Mr. REID: All right. What are the comparable landing charges for New York or London, England or Tampa, Florida? How would they compare with the charges that you pay here?

Mr. MCGREGOR: In New York it is \$16.97 for a Viscount as against our \$15.50; a Vanguard costs \$38.34 as against our \$42.60; a DC-8 costs \$84.15 as against our \$93.00; A DC-9 costs \$23.30 as against our \$21.50.

Mr. REID: Are you quoting those American figures in terms of United States dollars or in terms of Canadian dollars?

Mr. MCGREGOR: Yes, United States dollars.

Mr. REID: What is the basis of these costs?

Mr. MCGREGOR: Of the charges? They are rather arbitrary, at least so far as I know, and we are not talking about how the government balances its books, but they are related directly to the gross take-off weight of the aircraft.

Mr. REID: But so far as you are aware they are not related to the cost of maintaining the airport?

Mr. MCGREGOR: Not so far as I know.

Mr. REID: Do you negotiate these charges or are they assessed?

Mr. MCGREGOR: They are set.

Mr. REID: They are assessed?

Mr. MCGREGOR: Yes.

Mr. REID: That is fine, Mr. Chairman.

Mr. SHERMAN: Mr. McGregor, in response to a question asked by Mr. Schreyer a few minutes ago you made the point that in the opinion of Air Canada, in order to make the Winnipeg base capable of servicing jets and handling the DC-9, an expenditure of \$16 million would be required.

Mr. MCGREGOR: Yes, but I did not word it quite like that. I did not say to make the Winnipeg base capable, I said to build a new base.

Mr. SHERMAN: This seems to be contrary to much of the evidence presented at both the Thompson Commission hearings and in this final submission of the province of Manitoba, with which you are probably fully familiar, sir. I think you would agree that this blue book contains pretty powerful indictments of much of Air Canada's argument where utilization of the Winnipeg base is concerned. The experts who testified before the Thompson Commission, and whose testimony is quoted at length in the submission of the province of Manitoba, say the cost would range somewhere between \$810,000 and slightly under two and a quarter million dollars. There is a pretty incredible discrepancy between that figure and \$16 million. I would be interested in your defence of this \$16 million figure, sir. If there was a difference of a million or two it would be easier to accept.

Mr. MCGREGOR: There are two schools of thought. One said one thing and one said the other. They were both experts, hired by different people. As a defence to that, would you like to hear the pertinent section?

Mr. W. S. HARVEY (*Senior Vice President—Finance, Air Canada*): The final paragraph on page 90, Mr. Sherman, of the report of the commission of inquiry, states:

If the DC-9's were overhauled at Winnipeg together with the Viscounts, then (disregarding capital cost and construction of a new facility there of \$16 million or more, and disregarding the cost arising from under-utilization of the Dorval base)

There is the \$16 million right in the evidence.

Mr. SHERMAN: Where would the under-utilization of the Dorval base come in when you are talking about these development and expansion programs? There is obviously going to be enough work for both bases. You say in three to four years you are going to have to spend money in expanding the Dorval base to handle the growing traffic.

Mr. MCGREGOR: Are we discussing the difference between \$800,000 and \$16 million? One is a lash-up of using existing buildings to somehow or other turn them into the capability of overhauling DC-9's. Neither Mr. Seagrim nor I ever thought it was feasible. This will start from grass roots with a new base.

Mr. SHERMAN: Witness after witness and testimony after testimony in the Manitoba submission argues the other position, Mr. McGregor.

Mr. CHAIRMAN: Mr. Sherman, with all due respect, I think Mr. McGregor has answered that point. That is one viewpoint, and another viewpoint has been given. There are experts on both sides! I do not think it is our function today to cross-examine on a brief. I think you can appreciate my point. You can question differences of opinion and how those opinions are arrived at, but do not match the evidence of one witness in a brief against the witnesses that are here.



Mr. SHERMAN: I appreciate that, Mr. Chairman, and I do not mean to submit the members of the Committee to an exercise in tedium. However, I will certainly concur and co-operate when they have regional problems. I think you will concede that this is a burning issue in my part of the country, and we have not had that much opportunity to cross-examine Air Canada on it.

The CHAIRMAN: Mr. Sherman, there is no intention of cutting your questioning off. I understand the problem. We all understand the problem of the Winnipeg facilities. I do not think it is proper for you to cross-examine the president of Air Canada on a brief prepared by other witnesses, and of which Air Canada is well aware. I simply do not think it is proper cross-examination. If you have questions to ask, that is fine, or if you want to deal with legitimate differences of opinion, but you must not say that this witness said so and so and you are saying something else. The witness who is mentioned in a brief is not here for the availability of the members to cross-examine. That is my point, he is not here.

Mr. ROCK: That has all been taken care of in the Thompson Commission.

Mr. SHERMAN: I will accept your ruling, Mr. Chairman, but just for the record, I think Mr. McGregor will agree with me that there is a pretty fantastic discrepancy in the two positions and I wonder if that sort of thing will ever be satisfactorily resolved.

Mr. MCGREGOR: I do not think that the things that were covered by the two figures were at all comparable.

Mr. SHERMAN: Well, sir, let me ask you this. Are there going to be any maintenance facilities built in Toronto? Does Air Canada envisage using Toronto in the future for maintenance purposes?

Mr. MCGREGOR: Let us be careful about the wording. Maintenance or overhaul?

Mr. SHERMAN: Maintenance and overhaul.

Mr. MCGREGOR: No, not overhaul. We do line maintenance at every point we touch down if it is necessary.

Mr. SHERMAN: But you have no plans for establishing overhaul facilities at Toronto for the DC-9 or any other component in the fleet?

Mr. MCGREGOR: No.

Mr. SHERMAN: How much work is being farmed out at the Dorval maintenance and overhaul operation right now, and where is it going?

Mr. MCGREGOR: I will ask Mr. Seagrim to deal with that, but I do not think there is any.

Mr. SEAGRIM: I cannot be specific, but a very small amount indeed.

Mr. SHERMAN: Do you envisage having to farm more of it out in the near future?

Mr. SEAGRIM: No, we do not.

Mr. SHERMAN: Regardless of whether you expand the facilities there?

Mr. SEAGRIM: No. For example, as we add DC-8's and DC-9's, which are being maintained and overhauled at Dorval, obviously from year to year facilities will have to be added. Now, all the overhaul shops and all the supporting shops for these types of air craft are also at Dorval, and inherent in the design of the building and the support shops is the ability to expand from year to year. This was part of the original concept.

Mr. SHERMAN: I would like answers if possible, gentlemen, to two questions here which may be difficult to answer, it may take time, but I would like to put them on the record. Could you tell me how many employees are involved in overhaul of aircraft in Montreal as compared to personnel employed in the same duties in Winnipeg? Could you also tell me what the yearly percentage turnover would be at Dorval over the period of the past five years? I do not need those answers at the moment but I would like to put them on the record.

Mr. MCGREGOR: We will get them for you.

The CHAIRMAN: If you could do that, Mr. McGregor, they will be sent to members of the committee.

Mr. SHERMAN: Thank you.

Mr. MCGREGOR: I am not too clear what you mean by "turnover".

Mr. SHERMAN: The yearly percentage of personnel turnover at Dorval.

Mr. MCGREGOR: Loss and replacement?

Mr. SHERMAN: Yes, let us say over the last five years.

Mr. MCGREGOR: Thank you.

Mr. SHERMAN: My next question embraces the concept of Winnipeg as a regional air centre, important, not just to Winnipeg but to Regina, Saskatoon, Edmonton and every other prairie centre, and it has to do with the bilateral agreement between Canada and the United States on international routes. I wonder to what extent Air Canada figured in the negotiations leading up to the 1966 bilateral agreement?

Mr. MCGREGOR: It stated its desires to the government negotiating team; it was not in the negotiations. We asked for Chicago-Winnipeg.

Mr. SHERMAN: Air Canada asked for Chicago-Winnipeg?

Mr. MCGREGOR: Yes.

Mr. SHERMAN: Did you ask emphatically for it or was it just an academic exercise?

Mr. MCGREGOR: Oh no, it was very definitely one of the things we asked for. We asked for it with the same emphasis that we asked for Toronto-Los Angeles.

Mr. SHERMAN: What were the objections to it?

Mr. MCGREGOR: I think they had run out of trading currency at that time. You see, you get nothing for nothing in these bilateral negotiations.

Mr. SHERMAN: No. In other words, your attitude leads me to conclude that Air Canada would have been as interested, for example, in the Winnipeg-Chicago run as some of the United States runs that it obtained, and this is

certainly not compatible with some of the reports on the hearings. Did they ask for Winnipeg-Chicago on an equal basis with some of the other runs that were requested?

Mr. MCGREGOR: Yes. In fact, there is no way of differentiating. We stated the transborder runs that we would like to have. There was no priority given to them. There was an obvious economic advantage to the Toronto-Los Angeles run. We were not asked whether we should break off negotiations if we could not get Chicago-Winnipeg, for example.

Mr. SHERMAN: When the bilateral agreement is up for re-negotiation in 1969 will Air Canada again ask for the Winnipeg-Chicago run?

Mr. MCGREGOR: Yes, I expect so.

Mr. SHERMAN: Will it be fairly high on the list of priorities?

Mr. MCGREGOR: We have never been asked to place priorities on these, but it is a natural for us, we are operating into Chicago from the east. If we could operate into Chicago from the west through Winnipeg it would be just a slight bend in the trans-continental flight as I think I said to the Thompson Commission.

Mr. SHERMAN: Well, you had bad reporting on the negotiations then, sir, because—

The CHAIRMAN: We all complain about bad reporting, Mr. Sherman, some more than others.

Mr. SHERMAN: We did not get the impression in Winnipeg that the flights—

The CHAIRMAN: I just want to impart that to you Mr. Sherman.

Mr. SHERMAN: You did not let me finish my sentence, Mr. Chairman. We can count, then, on a fairly intensive effort on Air Canada's part in 1969 to obtain this route agreement?

Mr. MCGREGOR: If I have anything to do with it, yes.

Mr. SHERMAN: When you say if you have anything to do with it, do you anticipate that you will not have anything to do with it?

The CHAIRMAN: I think, Mr. Sherman, it is quite obvious what Mr. McGregor means. God willing he will still be here.

Mr. SHERMAN: Would you say that the executive echelon of Air Canada feels this way about that route?

The CHAIRMAN: Well, you are talking to the chief executive officer, Mr. Sherman.

Mr. SHERMAN: Yes. I am talking about the possibility you have raised that he might not have a direct hand in it, but the attitude of Air Canada at the executive level is pretty general, then?

Mr. MCGREGOR: I cannot see why it would be altered because, as I say, it is a good route.

Mr. SHERMAN: I have one other question. I would like to ask you about the international rates fixed by the International Air Transport Association which



militate against Winnipeg and against any other part of Canada that has not been designated as a port of entry. Why do we have to pay substantially more money to fly a shorter distance when we go from Winnipeg to Europe over the pole? Why is Montreal the accepted port of entry in the air age in Canada? Why are we in Winnipeg not a port of entry?

Mr. MCGREGOR: It has always been thus, and this has been argued back and forth. It was argued by IATA at Rome and it was argued at Honolulu within the last year. It is not by any manner or means the only case of discrimination in the rate per mile. In fact, all the central western United States are in the same box.

Mr. SHERMAN: When and how can agreements of this sort be re-negotiated? Does Air Canada not have any influence in those negotiations?

Mr. MCGREGOR: We do; we had enough influence to bring the rates down and we got fairly general acceptance of the idea of a constant rate per mile. I am sorely tempted to say that CPA bucked it, but I will not.

Mr. SHERMAN: We will not expunge that, will we, Mr. Chairman?

The CHAIRMAN: No, we will leave it on the record, I guess.

Mr. SHERMAN: What is your prognosis on this?

Mr. MCGREGOR: I think it will come, I think it has to come.

Mr. SHERMAN: When does IATA meet again?

Mr. MCGREGOR: Two years hence, I think.

Mr. SHERMAN: Two years from now?

Mr. MCGREGOR: It may be in 1968.

Mr. SHERMAN: And once again the issue will be raised by Air Canada and the fight will be fought valiantly and well?

Mr. MCGREGOR: That is right.

Mr. SHERMAN: Well, we will be watching in Winnipeg, sir.

Mr. MCGREGOR: All right.

Mr. SHERMAN: I may want to get on the round again before the day is over, Mr. Chairman.

The CHAIRMAN: You still have a few minutes, Mr. Sherman.

Mr. SHERMAN: I will defer to another questioner.

Mr. SCHREYER: Mr. McGregor, what is the nature of the opposition to the idea of a constant rate per mile? Where is the opposition coming from?

Mr. MCGREGOR: The opposition is not mischievous. I have forgotten the number of hundreds of thousands of individual fares that are filed in IATA, and if you have a constant rate per mile you will probably quadruple that number and it complicates the record. It is computerized now. It is a perfectly logical fare structure and I am quite sure it has to come, but it will be a lot of troublesome work particularly for IATA.

Mr. SCHREYER: Would it be fair to assume that the major part of the opposition comes from foreign airlines that operate domestically? Also, are these air lines part of IATA?

Mr. MCGREGOR: Oh yes, all international airlines except about three or four are part of IATA but, you see, in all European countries they do not have this problem of different rates for different cities within the same country, so they do not build up any head of enthusiasm for this.

Mr. SCHREYER: The reason I ask is that the present system seems to offend one's sense of logic and reason so much that it would be very interesting to find out just where the major blockage or opposition has been emanating from. I take it that it is not Air Canada; you just said that you have proposed a new approach. I take it, then, that it must be CPA and some American air lines, perhaps, that are in the vanguard of opposing this?

Mr. MCGREGOR: I was not at the Traffic Conference, and I do not think I should speak to it, anyway, if I did know how people voted in the Traffic Conference; but I would think that the U.S. carriers would be for it.

Mr. SCHREYER: For the new proposal?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: Mr. McGregor, I would like to refer to some statements you made about two years ago. I hope that your views remain the same as they were then. I refer to some of your testimony before this Committee on June 24, 1964, almost three years ago. At that time you said: "It is unlikely that any useful discussions with regional airlines about their share of the transportation growth could come for at least two years". Two years and more have passed. Do you feel that this is now the time to move quickly to hold such discussions?

Mr. MCGREGOR: There have been quite a lot just recently.

Mr. SCHREYER: To what end?

Mr. MCGREGOR: I think there are about three applications before the Air Transport Board for different routes for regional carriers.

The CHAIRMAN: That is in line with the policy that was stated in the House, Mr. Schreyer, by the Minister of Transport under the new regional air policy program.

Mr. SCHREYER: Just to pursue this a little further, then, there was a statement by you, I believe, in September, 1961, to the effect that every increase given to CPA in domestic carriage would militate against the cost effectiveness, or the profitability, of Air Canada operations.

Now, in the light of that statement of yours in 1961, how do you regard the recent announcement that CPA is to go up to about 25 per cent?

Mr. MCGREGOR: Just the same way; and I said so a little while ago.

Mr. SCHREYER: Would it be fair to say that if Canadian Pacific is to be let in on more of the more profitable long-distance routes it would also be desirable to have CPA required to take up a greater share of the regional service required?

Mr. MCGREGOR: I think it would be a fairer approach, yes.

Mr. SCHREYER: Is this being done?

Mr. MCGREGOR: No.

Mr. SCHREYER: Why is it not being done? Is that a policy decision at government level.

Mr. MCGREGOR: I am a little bit out of my depth but I do not know that there exists machinery by which an air line can be ordered to operate an admittedly non-profitable route.

Mr. SCHREYER: I understand that under our system of operations a private firm cannot be ordered, perhaps, to take on certain works, or enterprises, but could it not be logically made a condition of granting an extension of franchise?

Mr. MCGREGOR: Not the way it works at the present time. An air line applies for a route and it either gets it or is denied it. I do not know whether this could be put on a sort of bargaining table basis—"you get this if you take that." It would be pretty complicated.

Mr. SCHREYER: What is the illogic of a *quid pro quo* arrangement when granting the franchise? After all, there is a regional air service need, and it has to be met. Possibly the policy can be adopted that the onus not be put strictly on one air line.

Mr. MCGREGOR: If I correctly understand the Minister's statement on regional services he admitted—if that is the right word—that there were cases where regional service was necessary but could not be operated viably, and I think that there was a suggestion that in that case subsidies would be paid to regional carriers.

Mr. SCHREYER: Just to pursue this a little further, Mr. McGregor, in 1964 you estimated that approximately 40 per cent of Air Canada operations were regional in nature. What is the proportion today? Is it much the same, or has it changed significantly?

Mr. MCGREGOR: I would think that it would be much the same; if anything, a small decrease perhaps.

Mr. SCHREYER: I understand that in 1963 Air Canada and Trans Air entered into an agreement whereby certain properties were transferred by Air Canada to Trans Air in exchange for which Trans Air was to take over some of the local routes that Air Canada had been servicing up to that point.

Mr. MCGREGOR: That is correct, basically.

Mr. SCHREYER: Has Trans Air Limited met its contractual obligations under that agreement?

Mr. MCGREGOR: Literally, yes.

Mr. SCHREYER: Literally?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: But is it not a fact that Trans Air has discontinued providing services?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: Has it returned to Air Canada the equipment, which I understand it got for one dollar?

Mr. MCGREGOR: No.

Mr. SCHREYER: Is it required to under the agreement?

Mr. MCGREGOR: No.



Mr. SCHREYER: Then, perhaps I could put the blunt question to you: Was there what one might call a loophole in the agreement which would allow Trans Air to opt out of continuation of that service?

Mr. MCGREGOR: Basically, yes. I am not going to ask you to cross-examine me on this. I will tell you the score because it is in an attachment to an Order in Council.

The agreement said that we would sell a Viscount to Trans Air for one dollar and we would give them two DC3s, in exchange for which they would operate the then route, as we understood it, unless they were permitted to get off all or part of that route by application to the Air Transport Board, which they did and got.

Mr. SCHREYER: I do not intend to pursue that line of questioning although it leaves one with some questions to ask the Air Transport Board, I suppose.

Mr. MCGREGOR: You are getting back to the basic point, you know, which is: Can you make them do something that is costing them money.

Mr. SCHREYER: Perhaps not; but they were given the equipment virtually free. Could you give a rough estimate of the book value of the equipment that was transferred to it by Air Canada?

Mr. MCGREGOR: At the time, I suppose the Viscount might have been worth \$250,000; the DC-3s—

Mr. SCHREYER: They must have had some residual value?

Mr. MCGREGOR: The DC-3s?

Mr. SCHREYER: Yes.

Mr. MCGREGOR: Maybe \$5,000 each.

Mr. SCHREYER: To the best of your knowledge is this equipment still being used by Trans-Air?

Mr. MCGREGOR: Yes, to the best of my knowledge.

Mr. SCHREYER: With respect to pilot training and pilot supply, is Air Canada experiencing any unusual problem in this connection?

Mr. McGREGOR: No.

Mr. SCHREYER: I understand that some foreign airlines the Australian, for example have been undertaking an unusual recruiting campaign in our flying clubs, et cetera, recruiting pilots for Qantas and so on?

Mr. MCGREGOR: We do not quite understand; but we have not experienced difficulty in recruiting pilot strength to our standards, which are high.

Mr. SCHREYER: Now that Air Canada is moving toward more sophisticated type airplanes and, presumably in a few years, to SST's, is this likely to cause any severe problem with respect to pilot availability?

Mr. MCGREGOR: I would not think so.

Mr. SCHREYER: You do not think so?

Mr. MCGREGOR: I do not think so.

Mr. SCHREYER: Finally, Mr. Chairman, for this round, would it be possible to table, or to have as an appendix to the proceedings, a table showing the breakdown by routes of the profit or loss to Air Canada?

Mr. MCGREGOR: Yes, it is possible but it will require to be very carefully explained, because there are three ways of getting at this. There is direct operating costs which are meaningless, there are fully allocated costs which are reasonable, I mean, as a criterion and then there is the abandonment costs, which is something else again, and which we always do when we are wondering about a route.

The CHAIRMAN: In other words, it would not be very practical to have such a chart unless it was explained.

Mr. SCHREYER: I understand. On the other hand it seems to me that some of the questioning that has been done with respect to profitability and unprofitability of certain routes, is really a waste of time unless we get the overall picture.

The CHAIRMAN: Mr. McGregor was saying that it is difficult to show it on a chart.

Mr. SCHREYER: Well, then, perhaps a chart along with attached explanations. What I would like to get at, Mr. McGregor—

The CHAIRMAN: Just a moment until I find out if it is feasible.

Mr. SCHREYER: That is my question.

Mr. MCGREGOR: I am trying to think whether it is or not and I am having difficulty.

The CHAIRMAN: Leave it with the Chairman to search it out and I will discover what can be done, if anything.

Mr. SCHREYER: All right.

Very quickly, Mr. McGregor, are the following routes unprofitable Vancouver-Seattle, Vancouver-Victoria and Regina-Winnipeg?

Mr. MCGREGOR: They are not broken down that plainly.

Mr. SCHREYER: You did mention the Lakehead operation as being a net deficit operation.

Mr. MCGREGOR: Did you ask me another question?

Mr. SCHREYER: Yes. I believe you said that the Lakehead operation was one of net deficit to the airline?

Mr. MCGREGOR: That is right

Mr. SCHREYER: And the Northern Ontario one, Halifax-Moncton, Halifax-St. John's?

Mr. MCGREGOR: Yes, that is correct.

Mr. SCHREYER: I would love to run to the Maritimes.

Mr. MCGREGOR: Mr. Pickersgill is not here. He will not allow me to use that expression.

The CHAIRMAN: He has gone to Alaska so you do not have to worry about him, Mr. McGregor.

Mr. SCHREYER: But whether or not there be a net deficit in an operation, the airline feels under some obligation to maintain these services because of regional development requirements, et cetera. In that connection, I would just like to quote to you two sentences from the Economic Council of Canada Third Annual Review wherein we find the following statements:

a better regional balance in national growth, in a manner consistent with our other national goals, can only be achieved through new and special efforts deliberately focused upon this compelling objective  
the objective being one of evenness of regional growth. Finally, Mr. Chairman, we draw attention to one major aspect of the over-all problem of regional development, namely the importance of developing a deliberate and consistent focus upon the regional problem within the area of federal government operations in themselves.

I underline the last five words, "within the area of federal government operations in themselves". Mr. McGregor, in the light of this observation or opinion on the part of the Economic Council of Canada, do you still maintain that there is no special obligation on the part of Air Canada to maintain and develop a jet overhaul capability in more than one centre in a country of more than three million square miles?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: So that, in effect, you disagree pointedly with the statement of the Economic Council?

Mr. MCGREGOR: I do not know. All I know is that the cheapest way to run an air line is to have one overhaul base.

Mr. SCHREYER: Yes; considering strictly the profit and loss position?

Mr. MCGREGOR: That is correct.

Mr. SCHREYER: Which leads me to this question: In managing the operation of Air Canada do you not take into full account national goals, regional needs, and resource development, perhaps—things other than strict profit and loss?

Mr. MCGREGOR: Yes, surely; availability of trained people and many things.

Mr. SCHREYER: Did you allow this to impinge on your considerations when you were making the decision on whether to allow a full transfer of jet overhaul capability to Dorval? You took this into account, did you?

Mr. MCGREGOR: Yes; we even took many other places than Dorval into account before the base was originally located there.

Mr. SCHREYER: I would not be unreasonable to suggest, however, would it, that this is a matter that involves government policy as well as crown corporation policy?

Mr. MCGREGOR: What the government has said to me is, "You run the air line as best you can". This is what we are doing.

The CHAIRMAN: You are not going to get any other answer, Mr. Schreyer, no matter how—

Mr. SCHREYER: Just a moment. To run the airline as best you can, with regard for the rules of ordinary commercial enterprise? Is that right?



Mr. MCGREGOR: Yes.

Mr. SCHREYER: Precisely; and if this were the instruction given you by the government then many of those regional routes that you are presently servicing would be dropped. You must be taking other things into account.

Mr. MCGREGOR: Of course; that is what I said. But that did not result in the planning for the Winnipeg base.

Mr. SCHREYER: This is a letter which you wrote to the *Toronto Globe and Mail* back in 1961. At that time you stated that the Canadian Pacific was doing major overhaul work outside of Canada and that with respect to the overhaul of its jet aircraft, it was farming it out to Air Canada. Is that true?

Mr. MCGREGOR: Only the engines.

Mr. SCHREYER: Yes. Is that still being done by CPA.

Mr. MCGREGOR: No, we are doing it.

Mr. SCHREYER: Actually, it is a two-pronged question. First, to the best of your knowledge are they overhauling aircraft outside of Canada at the present time?

Mr. MCGREGOR: I do not know. I do not think they are.

Mr. SCHREYER: What about farming out jet engines to Air Canada?

Mr. MCGREGOR: No, they are not doing that, except Conways.

Mr. SCHREYER: When did they discontinue that?

Mr. MCGREGOR: About a year ago. Correction, we are still overhauling their jet engines other than the Pratt & Whitneys.

Mr. SCHREYER: Do they have their own jet overhaul facilities now?

Mr. MCGREGOR: So far as I know.

Mr. SCHREYER: Where?

Mr. MCGREGOR: I expect they are in Vancouver.

Mr. SCHREYER: Thank you, Mr. Chairman.

The CHAIRMAN: Gentlemen, I think this is a good time to adjourn until after orders of the day before doing so, I would like to have a motion to reduce the printing requirements of our minutes to 1000 English copies and 750 French copies. At the present time we are printing 1500 of English and 1000 of French which, I am informed by the clerk, are too many. Could I have a motion to reduce our printing to 1000 English copies and 750 French copies please?

Moved by Mr. Bell, seconded by Mr. Lessard.

Motion agreed to.

At the same time may I have a motion to sit while the House is sitting in order to hear out-of-town witnesses? If I may have such a motion.

Moved by Mr. Deachman, seconded by Mr. Reid.

Motion agreed to.

Our former Vice Chairman Mr. Lessard is back on the Committee. May I have a motion reappointing him as Vice Chairman of this Committee?

Moved by Mr. Cantelon, seconded by Mr. Sherman.

Motion agreed to.

There is one point I would like to correct. I introduced Mr. H. D. Laing as Vice-President of Public Relations. He is Assistant Vice-President, (Finance).

Questioning will also continue with the Air Canada witnesses on the capital budget of 1967 and the auditors will take care of the auditors' report.

Mr. BELL (*Saint John-Albert*): When we were speaking about this Moscow—Montreal run there was mention of the fact that the Russians use their flight and that presumably we use our own, but also theirs on the return. I wonder if you have any readily-available figures about the percentage that the different nationals utilize? I would like to get the figures to see if we should be more nationalistic about using our own flights.

Mr. MCGREGOR: I do not think that we could possibly get those figures other than by guessing at the nationality from the name, which might be very misleading. We do not record the nationalities. Probably the Department of Immigration does, but we do not.

Mr. BELL (*Saint John-Albert*): I see. You do not make any projections at all our whether Canadians are using BOAC rather than Air Canada where it is a competitive flight?

Mr. MCGREGOR: It does not matter a bit. It is pooled.

Mr. BELL (*Saint John-Albert*): In this case it does not?

Mr. MCGREGOR: In both cases; we are pooled on revenue.

Mr. BELL (*Saint John-Albert*): I see. But in the case of the Moscow flight it was not?

Mr. MCGREGOR: Oh, yes.

Mr. BELL (*Saint John-Albert*): Are there other situations similar to that where it might be advisable for us to become more nationalistic, and more oriented to the use of our own services?

Mr. MCGREGOR: To the transporters it would be helpful.

Mr. BELL (*Saint John-Albert*): If there are any figures I would appreciate them. I understand from what you are telling me, that it is only possible, then, on the ones where there is pooling?

Mr. MCGREGOR: No, what I am saying is that we are not really exercised about where the passenger was born. If the revenue is pooled, then we each get our share of it on the formula basis and that applies to the Montreal—Moscow service and to Montreal—London and Montreal—Dublin.

Mr. BELL (*Saint John-Albert*): In the year's percentage figures that have been given as I recall, 53 per cent Canadians were on the flight and yet they were shown up on others. I want to know whether there is enough encouragement in Canada to use our own particular routes.

The CHAIRMAN: Perhaps we can pursue that this afternoon, Mr. Bell. We will adjourn until orders of the day are called.

The meeting is adjourned.

## AFTERNOON SITTING

• (3.35 p.m.)

The CHAIRMAN: I will now call the meeting to order.

Mr. Rock, you are first on the list.

Mr. ROCK: I am looking for my notes, Mr. Chairman.

The CHAIRMAN: I did not think that you needed notes to ask questions, Mr. Rock.

Mr. ROCK: It happens sometimes.

Mr. McGregor, I would like to return to this new flight that you have between Montreal, Copenhagen and Moscow. I notice on your map that from Copenhagen it goes up towards Estonia and then down towards Moscow, rather than going directly to Moscow.

Mr. MCGREGOR: That map is not supposed to be geographically exact, but the fact is that you do have to follow an official airway entry.

Mr. ROCK: If that same sort of triangle went south you would be crossing over Warsaw, and I was wondering whether you could explore the possibility of also making some sort of an arrangement with Poland so that possibly that same aircraft could stop at Copenhagen, Warsaw and then Moscow, and therefore you could get more customers to use the services of Air Canada.

I am saying this because anyone wanting to go from the United States or Canada to Czechoslovakia or to Warsaw have to hopscotch all over Europe, because there is no direct route. From North America at least Air Canada would have a direct route to Copenhagen, Warsaw and Moscow. Would it be possible for you to explore this with that country?

Mr. MCGREGOR: First of all, there is not a Polish bilateral agreement at the present time, and, secondly, we had a look at both Warsaw and Prague and one other before we selected Copenhagen. It is not good to put too many stops even on a long-range flight.

Mr. ROCK: I know that. I have been in Copenhagen, and from that airport there are a lot of short flights going to these other countries. Is this the reason—that yours is a long flight? Did you survey this?

Mr. MCGREGOR: Oh, yes.

Mr. ROCK: Many questions have been asked about the overhaul base in Montreal. It seems that some of the members are questioning whether or not we should split the maintenance base—I mean the overhaul base. I believe that many people in Canada are confused by the words “maintenance” and “overhaul”.

Mr. MCGREGOR: This is apt to be the case, yes.

Mr. ROCK: They feel that there is no maintenance being done anywhere except in Montreal at the present time. They do not realize that this is done only when the aircraft is due for an overhaul, and that it comes to this base for the



overhaul. I feel that somehow there is a waste of time involved in the suggestion that the overhaul base be at this place or that place. Mind you, I am from Montreal and I am very happy that it is in Dorval, but I can understand that many members here would like to see an overhaul base in Newfoundland, that someone else would like to have one in Nova Scotia and that someone else would like to have one in British Columbia.

This has already been settled by a commissioner, and I think that is the end of it. I do not understand why it is brought back for discussion so often: It is clear though, that in every airport you have a maintenance base—

The CHAIRMAN: Excuse me for a moment, Mr. Rock. I wonder if there could be more silence? This is not the best room acoustically, and every little sound is magnified.

Please continue, Mr. Rock.

Mr. Rock: You do maintenance at every airport, and when you overhaul it is done in Montreal?

Mr. MCGREGOR: We do line maintenance at the majority of them; not every one. I am trying to think of some of the ones at which we do not do it. Lethbridge is one, and there are many others; but the frequent touch down points all have line maintenance facilities and some selected stores.

Mr. Rock: I think it was Mr. Schreyer who referred to the Economic Council of Canada. It appears that Air Canada is not following the policy that is recommended by that Council. I disagree with anyone making a statement like this, because I think that it would be economically unsound to have an overhaul base at every main airport.

Mr. MCGREGOR: It would break us, I think.

Mr. ROCK: It would be ridiculous?

Mr. MCGREGOR: Yes.

Mr. ROCK: It seems that somehow this recommendation of the Economic Council of Canada has slipped in, implying that Air Canada is not doing its part and practically even giving the impression that maintenance is not being done anywhere except in Montreal. I brought this up for clarification.

Mr. MCGREGOR: Thank you very much, Mr. Rock.

I think that the word "regional" is the one that has got into the act here. I doubt very much that the Economic Council were talking about regional air lines, as such, or regional air operations.

Mr. ROCK: I will pass for now, Mr. Chairman.

Mr. ORLIKOW: Mr. Chairman, I would like to go back to the question Mr. Schreyer raised this morning on the agreement with Trans Air under which Air Canada was relieved of its run from Winnipeg west, Regina, Calgary, Lethbridge and Medicine Hat—

Mr. MCGREGOR: —and Swift Current.

Mr. ORLIKOW: —and Swift Current, through which Air Canada turned over to Trans Air one Viscount and two DC-3's. I am speaking from memory, but I think you said that the Viscounts were worth \$250,000 and that the DC-3's had been pretty well written off, although they were useful. Did that agreement have any clause which stipulated how long Trans Air would carry on the service for which they were given these three planes?

Mr. MCGREGOR: I am speaking from a pretty badly strained memory, but I think it was three years, unless they had the permission of the Air Transport Board to give up one or more legs.

Mr. ORLIKOW: One or more—?

Mr. MCGREGOR: Sections of the route.

Mr. ORLIKOW: Can you tell me, Mr. McGregor, what they eventually gave up?

Mr. MCGREGOR: They gave up everything west of Regina, as I remember it.

Mr. ORLIKOW: "Eventually" was not very long, was it?

Mr. MCGREGOR: No; but they were acting within the letter of the law.

Mr. ORLIKOW: That may be, and I suppose it would be within your rights to say that the decision to let them drop the line was made by the Air Transport Board; but it is theoretically possible that they could have run the line for one day and then cancelled out. It seems to me a rather improvident agreement in the circumstances. Perhaps this is hindsight, but it seems to me that Trans Air did very well out of the agreement. I wonder what the people of Canada got out of it?

Mr. MCGREGOR: Well, I do not think we got off too badly on it at all. Personally, I was delighted to get off the route.

Mr. ORLIKOW: I do not question that; but even by your own figures those planes were worth \$250,000. If Trans Air continues to use the planes for other flights then they did not have to purchase other planes; so that they were worth a good deal to Trans Air.

Mr. MCGREGOR: I think that it was a fair deal. We were losing more than that on the route a year.

Mr. ORLIKOW: Yes; but from the point of view of the people of Canada you might have been better off to dispose of those planes through Crown Assets. I do not know what you would have received for them, but the people of Canada could not have received less than they received out of this agreement.

Mr. MCGREGOR: The people of Canada still have half the route being operated.

Mr. ORLIKOW: Mr. Chairman, I think that at some point we should discuss this matter with the Minister or the Air Transport Board.

Mr. MCGREGOR: Mr. Orlikow, perhaps I should explain that the Department of Transport was a party to that agreement.

Mr. ORLIKOW: When it was negotiated; I understand that. I am just puzzled at the celerity with which Trans Air was permitted to get out of the agreement and keep the "boodle" which they got.

Mr. Chairman, I wonder if Mr. McGregor could tell us briefly—and I do not expect a resumé of every new run—when Air Canada got into the overseas European business?

Mr. MCGREGOR: It was during the war. It was rather an odd sort of an entry; it was not a deliberate entry of TCA, as it then was. The government decided that there should be an air service across the Atlantic, basically, as I understand it, although I was not with the company at the time, for the provision of a good mail service to the troops serving in Europe. A company called the Canadian Government Trans-Atlantic Air Service was formed—CGTAS—and at the end of the war it became a division, as it were, of TCA; then later there was a corporate amalgamation of the whole thing.

Mr. ORLIKOW: To how many countries is there now a service in western Europe?

Mr. MCGREGOR: Seven, I believe.

Mr. ORLIKOW: Mr. McGregor, could you tell us when CPA got into the business of flights to Europe?

Mr. MCGREGOR: Yes; I cannot give you the exact date, but I can tell you that it was during Mr. Hees' regime as Minister of Transport.

Mr. ORLIKOW: But, as I understand it, that was the flight from Vancouver to Amsterdam. Am I right?

Mr. MCGREGOR: No; I think that was the flight to Rome.

Mr. ORLIKOW: From Vancouver?

Mr. MCGREGOR: I am vague on that, I must admit. We can get the exact data for you.

Mr. ORLIKOW: When was CPA given the right to fly from Montreal to Amsterdam?

Mr. MCGREGOR: Last year.

Mr. ORLIKOW: That was the first time they had a connection from—

Mr. MCGREGOR: From an eastern centre, yes.

Mr. ORLIKOW: Has that had an effect on the business which Air Canada does in flying people to western Europe?

Mr. MCGREGOR: I do not think an appreciable one, because their opposition in that case is KLM. We did not serve Amsterdam at any time. The closest we ever came to it was Brussels.

Mr. ORLIKOW: You said earlier, in reply to somewhat the same type of question, that these things are usually done on a basis of trade.

Mr. MCGREGOR: As between country and country, yes.

Mr. ORLIKOW: Did Air Canada get any new route, or any new area, that it could service in lieu of this new opening to CPA to fly from eastern Canada to western Europe?



Mr. MCGREGOR: None that was ever directly related, but I do not think that we would be serving Copenhagen and Moscow today except on the basis of a division of the spoils, so to speak.

Mr. ORLIKOW: I am sorry, but I do not follow that. Could you explain that in a bit more detail?

Mr. MCGREGOR: The fact that CPA was given Amsterdam did not produce in the Canadian government's mind the idea that Air Canada had to be given something as compensation. However, I think that it is quite possible that in that same mind Copenhagen and Moscow may be regarded as a *quid pro quo*.

Mr. ORLIKOW: The extension of CPA service, which has been announced—the extra transcontinental daily flight—on the basis of past experience how much revenue is that likely to bring to CPA?

Mr. MCGREGOR: Mr. Orlikow, I think we made a shot at this this morning, and it was between \$3 and \$4 million annually.

Mr. ORLIKOW: In the first year or two, until the natural increase in air passengers which takes place each year, is this likely to mean a reduction in the occupancy rate of Air Canada flights across Canada?

Mr. MCGREGOR: Unless our capacity is adjusted accordingly, yes, it would.

Mr. ORLIKOW: What do you mean by “unless our capacity is adjusted”?

Mr. MCGREGOR: Well, if CPA puts on a flight and we take one off it will not change our occupancy rate.

Mr. ORLIKOW: No; but you would do less business.

Mr. MCGREGOR: Exactly.

Mr. ORLIKOW: If the government had not decided on this policy of extending the right of CPA to double its service could Air Canada have provided the equipment and the facilities to fly all the people who were likely to want to fly?

Mr. MCGREGOR: I believe so; but I put a question mark opposite the summer of 1967.

Mr. ORLIKOW: In terms of getting equipment?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: Then, that same question mark is certainly applicable to CPA. They are in the same “bind” as you are, in terms of getting planes?

Mr. MCGREGOR: I sincerely hope so.

Mr. ORLIKOW: So that this extension could have some pretty serious effects, both now and later, on the ability of Air Canada to operate efficiently, to service the public and to add to its financial position?

Mr. MCGREGOR: I cannot deny that this will have an effect, but whether or not it is serious remains to be seen.

Mr. ORLIKOW: Is that \$4 million figure that you gave the gross revenue that you would estimate that CPA—

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: I would not expect you to give us an estimate on what would be CPA's net, but what would that \$4 million mean to your net position?

Mr. MCGREGOR: On the transcontinental I would think it might mean as much as \$1.5 million.

Mr. ORLIKOW: That is all for now.

The CHAIRMAN: Mr. Jamieson, you are next.

Mr. JAMIESON: Mr. McGregor, some extended references were made this morning to regional air carriers and to the so-called policy on regional air carriers. You also very succinctly gave us an indication of your phasing out of certain types of aircraft you have now, of the move to more pure jets, and, I suppose, the eventual introduction of the supersonic jets and the like.

Is this trend in the development of new types of aircraft going to have a major bearing on your decisions, or what you would like to do with regard to regional and local routes and that kind of thing?

Mr. MCGREGOR: I do not think so. As was pointed out this morning, there is a responsibility on Air Canada to operate routes that, of themselves, are not economically viable. If we are going to have 75 per cent of the transcontinental and all the Canadian part of Canada-UK, it should be up to us, and we should be able to cross-subsidize within the company and provide these unviable services.

Mr. JAMIESON: I do not want to put the wrong interpretation on some of Air Canada's actions over recent years before the Air Transport Board, but I am thinking particularly of the Newfoundland situation—and I think that there have been others—where, on the one hand, you have indicated that regional routes and sort of short-haul or short-legs are not practical, and yet at the same time it appeared to me that your national planning and national development required you to stay in some of these services.

Mr. MCGREGOR: That is quite true. It sounds contradictory, but it is quite true.

Mr. JAMIESON: Well, there is a contradiction, is there not, in that sense?

Mr. MCGREGOR: In that sense, yes.

Mr. JAMIESON: In other words, if your argument is that you are losing money on a route—and it clearly is, on the basis of what we have heard today—I take it then that it does not automatically follow that abandonment of that route is going to mean that you are going to lose less money, or that you are going to make more money?

Mr. MCGREGOR: That is absolutely correct. This is why we do abandonment studies and draw a distinction between them and the indicated loss on a fully allocated cost basis.

Mr. JAMIESON: The theory has been advanced sometimes—and I wonder if you are in a position to give us your views on it—that in fact you ought to be, as Air Canada, largely a transcontinental or sort of—I am not sure what the terminology is in air parlance—

Mr. MCGREGOR: A main line carrier.

Mr. JAMIESON: —a main line carrier, with the regional carriers being strengthened in one way or another and feeding into these main line operations of Air Canada. In your view is this a feasible proposition?

Mr. MCGREGOR: In certain cases, yes, and in many cases, no, and for the very reason that was made this morning, that it involves a connection, a change of aircraft, or what we call a change of gauge; and it is a clumsy way of getting around the country.

Mr. JAMIESON: My only comment on that is that I cannot imagine it being a great deal worse than it is now in some places with regard to connections and the like.

Apart from that, is there any economic advantage in the long run? We are thinking ahead now, and presumably your board and your experts are planning a great many years in advance. Is there any wisdom in thinking now toward the day when you would in fact become a main line carrier, with the encouragement and development of regional carriers to make them more viable?

Mr. MCGREGOR: All I can say is that this has been done in two countries, France and the United States, and it has cost a great deal of money in subsidizing.

Mr. JAMIESON: If that is so, Mr. McGregor, although it may be good public relations, and defensible on a purely economic basis, the fact of the matter is that for you to make these references to certain lines being uneconomical, as though they were a drug on the market, or something of that nature, is at least not a totally factual presentation of the situation, is it?

Mr. MCGREGOR: Oh, I think it is.

Mr. JAMIESON: Then why would you wish not to abandon?

Mr. MCGREGOR: Well, first of all, whether we wish or not does not enter into the case.

Mr. JAMIESON: I am assuming that there would be an alternative means of service provided.

Mr. MCGREGOR: Subsidized?

Mr. JAMIESON: Presumably, yes.

Mr. MCGREGOR: And is that good for the country?

Mr. JAMIESON: I am asking the questions, and I am not doing it in any argumentative way. What I am saying is that this is a proposition that has been advanced.

For example, I think that there is a study under way now of all forms of transport in the Atlantic provinces. I would suspect—perhaps I will put it in the form of a question: Do you think that you could do a thorough regional job in, say British Columbia? Would you want to, or would it be advisable?

Mr. MCGREGOR: I do not think that we would want to, and I do not think that it would be advisable from the standpoint of the over-all financial position of the company.

Mr. JAMIESON: Well, under these circumstances, then, it would seem to be mandatory, if these areas are to develop, and particularly as we get into more



natural resources development—and, for example, I am thinking here of Labrador—that we keep these regional carriers in a reasonably healthy condition, because in those terms they are as vital to Canada as is Air Canada.

Mr. MCGREGOR: This is possibly correct; but all we are doing is transferring the unviable portion of the operation from Air Canada to the government.

Mr. JAMIESON: Let me ask the question in this way: Apart from the normal and obvious answer that you would welcome any money you can get, would it be a good principle to subsidize Air Canada?

Mr. MCGREGOR: I do not see the advantage of it, and I see interim difficulties in the period of transition when Air Canada's over-all operations would be in the process of being shrunk and when our basic charges such as overhaul bases and so on would be stretched that much more heavily over the remainder of the operation. I think it would be a painful process to go through, if nothing worse.

Mr. JAMIESON: I am not necessarily making a case for regional carriers. I am merely saying that if we need a regional carrier, as I think is demonstrably the case in eastern Canada—at least at the moment—then it does seem to me that this has a bearing on what decisions are made by Air Canada about the more productive legs of some of these routes.

Mr. MCGREGOR: I think this is true. Incidentally, you have a regional carrier of some note, or two or three of them, have you not?

Mr. JAMIESON: Yes; but as you know in each case they are all making the same complaint, that they cannot carry out an economically viable operation under the circumstances.

Mr. MCGREGOR: And must get on the main line.

Mr. JAMIESON: On a portion of the main line; that is right. So that what you have then—

Mr. MCGREGOR: This is traditional.

Mr. JAMIESON: —is a situation where parts of the main line are at the same time a necessity for an effective regional operation. Is that a fair assumption?

Mr. MCGREGOR: That is the position, I think.

Mr. JAMIESON: Without probing it too deeply, then, would you agree that this is a rather difficult problem?

Mr. MCGREGOR: I certainly would agree.

Mr. JAMIESON: Can you, Mr. McGregor, or can Air Canada, make any public statement on the policy which was announced some time ago with regard to regional carriers?

Mr. MCGREGOR: No.

Mr. JAMIESON: You have not commented on this. Do you feel that it is not for you to do this?

Mr. MCGREGOR: I do not feel so. It is a government decision.

Mr. JAMIESON: Except that it perhaps has a bearing on Air Canada.

Mr. MCGREGOR: Oh, yes, of course it does; but the implementation of it is what will have the bearing, not the announcement of policy; and I do not know

yet how that policy is going to be interpreted, or what the extent of the subsidization is going to turn out to be.

Mr. JAMIESON: I have one or two other questions if I still have time, Mr. Chairman.

The CHAIRMAN: You have four minutes.

Mr. JAMIESON: These again have to do, in one instance at least, with the business of passengers on Air Canada. I presume, from personal experience and from conversations with a great many other people, that your electronic reservation system is working reasonably well, but is being fouled up to some extent by—what is it?—overbooking, which causes constant harassment of passengers being told they cannot get on, only to find there are empty seats. What is the problem here?

Mr. MCGREGOR: Well, the problem is technical, to a degree. First of all, our electronic reservation system has worked extremely well considering it was unique in its design. I think we have been extremely lucky in the way it has behaved.

It is not perfect, because there is a human element behind it of course. There are about five different things that cause people to be told that they cannot get a reservation on a flight, and then have empty seats. Of the two principal ones, the first is people who hold reservations and do not pick them up and do not advise the air line that they are not going to be flying—in other words, the “no shows”.

Another tremendous source of empty seats develops from connecting flights. An air line in the United States may tell us that they are flying perhaps 15 passengers from a point in the western United States to Chicago where they are going to put them on a specific flight of ours. Anything can happen after that. They may suffer from “no shows”, or the flight may not arrive in time for the connection, and we have empty seats in spite of having turned away business. There are also three or four others.

Mr. JAMIESON: As a result of your experience with this electronic system is there now any kind of a record kept showing what it amounts to as a factor? For instance, does it constitute 15, 20 or 25 per cent? How does it range on the average flight?

Mr. MCGREGOR: We have always counted our “no shows”.

Mr. HARVEY: This is a quarterly analysis, in per cent of passengers boarded. “No shows”: January all classes combined, 6.3 per cent, April, 6.5 per cent; July, 8.8 per cent; October 8.1 per cent. I will read the 1965 figures for the same period. January, 5.9 per cent; April 5.6 per cent; July 5.8 per cent and October 5.8 per cent of passengers boarded.

Mr. MCGREGOR: Roughly 6 per cent.

Mr. JAMIESON: So that if you have a flight which is ostensibly sold out the odds are that there will be 6 empty seats out of every 100?

Mr. MCGREGOR: That is true.

Mr. JAMIESON: It seems to me to go much higher than that sometimes.

Mr. MCGREGOR: I think it does, at times.

Mr. JAMIESON: I have two other questions, sir. One of them has to do with the effects on air transport of—for want of a better phrase—fluctuations in the economy. I gather from what you have said about the enormous upsurge you experience in the summer months, and the like, that a good deal of your profitability is the reflection of a rather buoyant economy. Is the air line business more vulnerable than most enterprises to these fluctuations in economic conditions? In other words, is it a luxury type of thing for most people?

Mr. MCGREGOR: No, I do not think so. It seems to reflect very, very directly, and almost instantaneously, fluctuations in the level of business pressure in the country.

Mr. JAMIESON: But you are reasonably satisfied that your projection on future planning and so on would not be thrown wildly out of line by economic conditions, barring, of course, a major depression?

Mr. MCGREGOR: I think this is true. I do not think that we have ever been more than 3 per cent wrong in our forecast; and that varies with the distance into the future.

Mr. JAMIESON: I have one final question. I sympathize with, and admire, our western members for their tenacity on Winnipeg. Is there anything being done, other than in the maintenance field, to substitute for what is, in a sense, I suppose, being withdrawn from Winnipeg?

Mr. MCGREGOR: This question came up at the Thompson Inquiry, and the government representative asked us if we would prepare a brochure of what facilities would be made available with the shut-down of the Winnipeg base. We did that and reported it to the government. Quite frankly, I could not find that there has been any distribution of that very attractive document, but we have had several inquiries from various firms as to what was there, were we prepared to sell it—which, of course, we are if it coincides with, shall I say, the contractual removal of the base which is related to the number of Viscounts operated—and two or three of them have been quite interesting but nothing has come of them yet.

Mr. JAMIESON: Is there a possibility that you might substitute some other form of Air Canada activity at Winnipeg for maintenance purposes, and so on? I am thinking about using it more as a distribution centre for cargo, or something like that.

Mr. MCGREGOR: We are in the process of planning a cargo terminal at Winnipeg on the airport. Unfortunately it was delayed because we were assigned a site on which to build this terminal and last November the site was disallowed because of other foreseen requirements at the airport. As of about six or seven days ago a new site was assigned to us and the redrafting of the design associated with the new site has begun. By September of this year we will have under construction a major cargo terminal at the field.

The CHAIRMAN: How much would the capital construction cost, approximately?

Mr. MCGREGOR: I am afraid the cost of it is changing in the wrong direction. I would guess it would be in the order of \$2½ million.

The CHAIRMAN: I guess a pertinent question, perhaps, in this connection is what will this do in terms of employment, because I think one of the complaints



of the gentleman from Winnipeg was the loss of employment, men moving to Dorval.

Mr. JAMIESON: Well, this was what I had in mind.

The CHAIRMAN: I am sorry, go ahead.

Mr. JAMIESON: I was going to say does this compensate in any way for any possible reduction on the other side? Are the two related in any fashion?

Mr. MCGREGOR: Not numerically, no. I mean the employment at the cargo terminal would be very much less than it currently is at the base.

Mr. JAMIESON: But there will be some compensation.

The Chairman is getting restless so I will pass.

Mr. BELL (*Saint John-Albert*): May I ask if your personnel increase this year is normal?

Mr. MCGREGOR: This year over last?

Mr. BELL (*Saint John-Albert*): Yes. The personnel increase as shown in the 1966 estimates.

Mr. MCGREGOR: No. That is somewhat higher than normal because of the greater than normal expansion.

Mr. BELL (*Saint John-Albert*): I would just like to say, in so far as this Winnipeg situation is concerned, that everyone in the Maritimes will sympathize with Winnipeg because this is what we have been up against for years. In my humble opinion it is a combination of geography, big business and some kind of politics. I do not say partisan politics this time.

What I want to get at, Mr. McGregor, is the point I was mentioning before lunch. I realize I did not explain myself very well. I am trying to find out, and I think there is some responsibility on us to look into this, if Air Canada is getting a percentage share of competitive air traffic. Tied in with this will be the degree to which Canadians are patronizing their own national air line. We mentioned the isolated case of the Moscow run and you said it might be that the Russians were using their flights, and this and that, and I realize that is not a good example. Then you told me that BOAC did not matter on the north Atlantic run from a financial standpoint, but do you have any figures that show whether or not we are getting our share of increased business on the north Atlantic, separate from the revenue?

Mr. MCGREGOR: Yes, we have.

Mr. BELL (*Saint John-Albert*): We are doing all right there.

Mr. MCGREGOR: Yes. As a matter of fact, I am pleased that BOAC is continuing that pool arrangement because we are doing all right.

Mr. BELL (*Saint John-Albert*): There was one time we were not doing very well. You say we were losing in 1964-65.

Mr. MCGREGOR: Canada—Europe, both directions, passenger per cent share of total scheduled services. In 1965, Air Canada, 36; BOAC, 24. In 1966, Air Canada, 34; BOAC, 23. There is no other air line which is close to those figures with the exception of CPA, which is 12 and 14 per cent.

Mr. BELL (*Saint John-Albert*): There is no way in which you can really tell whether some Canadians are going on BOAC because, as you say, there is no identification when they buy the ticket.

Mr. MCGREGOR: No, not so far as the sale of the ticket is concerned.

Mr. BELL (*Saint John-Albert*): Are there any other examples of across-the-border service, such as Montreal to New York, which would show that we are doing all right as far as Air Canada is concerned?

Mr. MCGREGOR: It varies quite a lot between Toronto and Montreal. Between Montreal and New York, in 1965 Air Canada carried 51 per cent traffic and 58 per cent in 1966. Eastern Airlines had 49 per cent in 1965 and 42 per cent in 1966. Between Toronto and New York, in 1965 Air Canada carried 71 per cent of the traffic and American Airlines 29 per cent. Those figures changed quite drastically in 1966, with the introduction of jets by American Airlines, to 60 per cent and 40 per cent.

Mr. JAMIESON: For clarification, Mr. Chairman, is that both ways? You mentioned Toronto to New York. It is the round trip arrangement you are talking about on that route?

Mr. MCGREGOR: That is right.

Mr. BELL (*Saint John-Albert*): That is it. You are talking about the round trip ticket as such.

Mr. MCGREGOR: I am talking about the two-way traffic volumes, yes.

Mr. BELL (*Saint John-Albert*): I notice that figures are available through the Department of Transport showing the increases in traffic generally at airports in Canada. I believe there is a separation between national and domestic flights, and the like, but do you study these figures to make certain that you are getting your share of this increased business?

Mr. MCGREGOR: We generate many of those figures by counting our own load. Yes, we study them very carefully.

Mr. BELL (*Saint John-Albert*): You could demonstrate, if necessary, that you are getting a share of this increased traffic at airports.

Mr. MCGREGOR: Generally speaking we are. I think in many cases we are getting somewhat more than what might be called our fair share.

Mr. BELL (*Saint John-Albert*): What I am trying to get at—and I hope it is not too extreme—is that everyone knows there is quite a big increase in air travel, and I am not saying that you are not getting your share of it but it has to be considered vis-à-vis CPA, and the like, and if we are going to fully discharge our responsibility I think we should state something about this breakthrough that CPA has made.

Mr. MCGREGOR: Your basic concern may be that perhaps a Canadian does not always travel on a Canadian air line.

Mr. BELL (*Saint John-Albert*): That is right.

Mr. MCGREGOR: This is certainly true. They all have preferences and they exercise them, but by and large I would say that the average Canadian air traveller is loyal to his Canadian carrier.

Mr. BELL (*Saint John-Albert*): One of the reasons which I think they gave in the weak report they submitted for recommending that CPA be permitted to move further into the competitive field nationally was the fact that an availability of choice should be made to passengers, and undoubtedly this human element is there. However, we would not want the availability of choice to be furthered to such an extent that we would be travelling on all kinds of foreign lines. I am wondering about Russia, for example, where Intourist, which some of us have had some experience with, is very aggressive, and probably there is not much choice about whether we should not become more nationally minded about our own air line which is, after all, the Canadian taxpayers' money.

Mr. MCGREGOR: I think I could say that I would prefer not to have as a passenger someone who had been told that he had to go on Air Canada, such as MPs.

Mr. BELL (*Saint John-Albert*): I do not dare ask the obvious question about how free passes or other privileges that MPs have is working out. Perhaps I will take a chance—Has this affected.

The CHAIRMAN: Never ask a question to which you do not know the answer, Mr. Bell. As a lawyer you know that.

Mr. BELL (*Saint John-Albert*): Let me put it another way. Are the fears that were expressed years ago about the dangers of allowing MPs the travel privileges they now have still prevalent or has it worked out fairly smoothly?

Mr. MCGREGOR: Fairly smoothly, except that if the house rises on a Friday, or something like that, then there is hell to pay.

Mr. BELL (*Saint John-Albert*): I am glad to hear you state, Mr. McGregor, that MPs do not go home until Friday!

Mr. MCGREGOR: That was an implication.

Mr. BELL (*Saint John-Albert*): This load factor that we were speaking about will be heavy for Expo, and there will be extra revenue, of course, because you will be away above the break-even point.

Mr. MCGREGOR: That is why we are estimating a 24 per cent increase in travel.

Mr. BELL (*Saint John-Albert*): You have no idea how CPA can move in as quickly as it appears they are going to. Would they have the extra planes now?

Mr. MCGREGOR: I do not know. I have heard that they will not be able to implement that additional capacity transcontinentally very quickly.

Mr. BELL (*Saint John-Albert*): Has any thought been given—and I appreciate this may involve a question of policy—to some sort of an arrangement with the Department of Transport for the extra planes, apart from military, they may have available?

Mr. MCGREGOR: Oh, no.

Mr. BELL (*Saint John-Albert*): It strikes me that these planes are not used as economically as they should be.

Mr. MCGREGOR: The closest thing to an airliner that the DOT has which I know of is two or three Viscounts, which have the seats arranged in a very different manner.



Mr. BELL (*Saint John-Albert*): Do other countries maintain a separation in this way? National air lines are not called on for VIP flights, and the like, in other countries. As far as you know it is the same as in Canada, there is a separate government department of transport that looks after these things?

Mr. MCGREGOR: Well the United States have, as you would expect, quite a fleet of aircraft that are available for this sort of work. BOAC and ourselves are in very much the same boat. If there is a royal flight we are invited to participate—and this is usually a fairly involved operation.

Mr. BELL (*Saint John-Albert*): Fine. I will not pursue that any further.

The CHAIRMAN: Mr. Gray?

Mr. GRAY: Mr. Chairman, I would be happy to yield to Mr. Blouin for a supplementary.

The CHAIRMAN: Well, Mr. Gray, you had better take your chances while you can.

Mr. BLOUIN: Well, it was just a supplementary, Mr. Chairman.

Mr. GRAY: I could not be at the meeting this morning, but I understand some reference was made to various lines being less profitable than others. This actually fitted in with what I wanted to ask you about this afternoon, sir. I understand that one of the lines referred to is the one between Windsor and Toronto. Am I correct in that?

Mr. MCGREGOR: Yes.

Mr. GRAY: I am wondering, sir, how much this could be due to the fact that in the opinion of some people the schedules are not as convenient as they might otherwise be. If I may give an example which came to my attention this morning, I was informed that starting April 30, if somebody wanted to fly from Windsor to Ottawa in the morning the only flight available would be one leaving at 8.00 a.m. standard time, arriving in Toronto at 10.00 a.m. daylight time. There would then be a two-hour wait, leaving Toronto at approximately 12.20 and arriving in Ottawa at approximately 1.20. At the present time a person has two choices, as I recall; you can leave Windsor at approximately 7.30 in the morning and be in Ottawa at approximately 10.30, or you can leave at 9.25, with a brief stop-over in Toronto, and be in Ottawa at approximately 12.30. Instead of the two flights that previously existed, there is now only the one and with a two-hour wait.

Mr. MCGREGOR: This morning I explained to the Committee and we will be in a serious equipment squeeze this coming summer and in some instances we have had to deteriorate scheduling to try and make the best use of the equipment which we now own.

Mr. GRAY: Is that the same thing as making the best use of the equipment for the service of the public?

Mr. MCGREGOR: Not necessarily, no, but in the long run it works out.

Mr. GRAY: You put the equipment before the people?

Mr. MCGREGOR: No. I do not follow that. If we have to get two more hours work out of an aircraft in order to meet the requirements of the public, then we have to advance the starting time.

Mr. GRAY: I was wondering if the schedules between, say, Windsor and Toronto were somewhat more convenient would there not, perhaps, be more on-going traffic originating in Windsor going beyond Toronto, and so no, which would help make the line more profitable?

Mr. MCGREGOR: There might be but it has not worked that way in the past. We are talking about a condition in which the two flights that you mentioned were in being.

Mr. GRAY: I beg your pardon?

Mr. MCGREGOR: We are talking about a condition in which the two flights that you mentioned were in being in 1966.

Mr. GRAY: Yes. I would suspect that the improvement in the CNR rail facilities between Windsor and Toronto and the freeway are becoming more competitive with the service you previously offered. This might affect the traffic that you previously had between Windsor and Toronto, but I am wondering, sir, if this is not one of these self-defeating exercises where, because there is an initial decline in business you adjust the service accordingly, which makes the service less convenient and people seek other modes of transportation, with a corresponding reduction in service, and ending in a manner that seems to have been followed by one of our railways, which was the subject of some thorough study by this Committee last year?

Mr. MCGREGOR: I do not think there has ever been a decrease in the traffic volume between Windsor and Toronto from year to year.

Mr. GRAY: When I made some unofficial inquiries locally as to why the scheduling between Windsor and Toronto and ongoing points did not seem to be as convenient as it appeared to be—without making a thorough comparison of all the schedules—some years ago, the suggestion was made to me that perhaps the competitive facilities through other modes of transportation affected the reduction in business. If this is not the case, then it would seem to me, that efforts should be made to have the best possible links between one of Canada's major industrial cities and the rest of the country, rather than the reverse.

Mr. MCGREGOR: The passenger load factor on the Toronto-London-Windsor route in 1965 was 64 per cent and in 1966 it was 68 per cent.

Mr. GRAY: That is certainly very encouraging and it would seem to me, sir, to be consistent with a suggestion which I take the opportunity of making to you at this time, that some study be given to your scheduling to see whether or not in fact it could not be made more convenient than it appears to be at the present time.

Mr. MCGREGOR: I think there are few elements in the management of the company that get more attention than scheduling.

Mr. GRAY: What is the process used in working out the schedules in different portions of the year? How would you, for example, decide—you have hinted briefly at this in answer to a previous question—to substitute what appears to me to be a rather inconvenient connection between Windsor and Ottawa in the morning for the two flights to which I have just referred?

Mr. MCGREGOR: We studied the number of passengers moving between Windsor and Ottawa, which is a very small fraction of those moving between

Windsor and Toronto, their apparent travelling habits and the requirement on the equipment, which is the great driving motive, to get the plant working hard.

Mr. GRAY: When some other adjustments were made it was suggested to me that actually things were as good as before because on certain flights Vanguard, which have more seats than the Viscounts, were being used than had been previously used, and it occurred to me at that time that there is not much point in having more seats available at a time when it is not convenient for people to travel.

Mr. MCGREGOR: This is true.

Mr. GRAY: Well sir, I have attempted to bring this to your attention without, of course, having the opportunity to carry out a detailed study with respect to the schedule between Windsor and the rest of the country. As I said before, it may be that the on-going traffic may not be what it could be but I hope that you will examine the matter to see what can be done to make it more convenient, perhaps taking the risk—as the CNR did when they improved their passenger facilities—that it would in fact lead to greater business to match whatever the expense through use factors involved would require.

The CHAIRMAN: Mr. Southam?

Mr. SOUTHAM: Thank you, Mr. Chairman. At the risk of being repetitive in one or two of my questions, Mr. Chairman, as I was unable to be present this morning at the Committee hearing because of a dental appointment, I would like to ask Mr. McGregor a question or two.

As I understand it, Mr. McGregor, your company recently set plans in motion to make the most economic disposition of your planes and equipment for Centennial Year, which is understandable, and in so doing some complaints have arisen in the province of Saskatchewan with respect to these new schedules. The people there feel they are not getting as good service as they did previously. Now, are you aware of these complaints? Is there any foundation to them? What is the answer to it?

Mr. MCGREGOR: Well, I heard a rumour—it was purely that—that we were going to opt out of Saskatchewan, which is certainly absolutely untrue. This is the only basis, as far as I know, for what might be regarded as agitation.

Mr. SOUTHAM: Well, I am glad to hear you say that. It was mentioned last summer, and it was brought up in the house by the Member for Victoria—I also had the matter brought to my attention, as well as the member for Regina City—that the scheduling that was then set up had led to complaints from people travelling out of Vancouver into the various terminals in Saskatchewan that the length of time had been increased to the point where it was longer than it had previously been. Has that been rectified, to the best of your knowledge?

Mr. MCGREGOR: Let me enquire if it happened. I do not understand an increase in the flight time between Vancouver and either Regina or Saskatoon.

Mr. SOUTHAM: Well, I have complaints on record to that effect and I brought it up in the house at the time, but I have not heard anything about it recently. However, I have heard recent complaints regarding the new schedules for Centennial Year. Now, one of the basic problems, of course, and you are aware of this, is that we do not have jet runways at our terminal in Regina, which is a



matter of some concern to the people in that area because of the speed-up in your schedules. Are there any plans afoot to lay down jet runways in Regina?

Mr. MCGREGOR: That is really not my—

Mr. SOUTHAM: It comes under the Department of Transport, I presume, but to provide better service to potential passengers across Canada are you contemplating this improvement, or do you have any information to that effect?

Mr. MCGREGOR: As was said this morning, we provide the Department of Transport annually with what we would like to see done in the way of facilities; navigational, runways, taxiways, and so on. Air Canada is planning on August 20, 1967, to give a DC-9 service to Regina. Now, I do not know at this time whether or not recent delays in DC-9 deliveries is going to interfere with that implementation.

Mr. SOUTHAM: Well, in your interests, and naturally using your best judgment in trying to have the best available disposition of your equipment, has there been any suggestion made that possibly western regional carriers could come into the picture to take over some of the services you are presently providing?

Mr. MCGREGOR: I understand that the Minister's statement of a few days ago did just that.

Mr. SOUTHAM: This might be where some of these complaints have arisen. There has been a fear aroused, as you know, in the minds of some Saskatchewan people that because of the heavy demand this year they are possibly not going to get the service to which they think they are entitled, and I felt justified in presenting this to you at this time.

Mr. MCGREGOR: Well, subject to correction by the Chairman, I interpreted the Minister's statement to mean that anybody was free to get into the act during Expo year.

Mr. SOUTHAM: That is all I have at the moment, Mr. Chairman.

The VICE-CHAIRMAN: Mr. Blouin?

Mr. BLOUIN: Mr. Chairman, I want to refer to the first part of Mr. Jamieson's question that had to do with the regional air routes. He spoke in terms of Newfoundland and Labrador and I want to speak in terms of the north shore of the St. Lawrence. I would like to ask Mr. McGregor a direct question. I have heard rumours to the effect that Air Canada was going to abandon their daily flights from Montreal to Sept Iles because of the fact, as Mr. Jamieson pointed out, that you were going to modernize the equipment and increase the intercontinental flights. You were going to abandon these three daily flights that we now have from Montreal to Sept Iles or that they may be transferred to regional air carriers such as Quebecair?

Mr. MCGREGOR: I know of no such plan.

Mr. BLOUIN: You know of no such plan?

Mr. MCGREGOR: That is correct.

Mr. BLOUIN: At the moment it is to remain as it is now?

Mr. MCGREGOR: As far as I know, I have heard nothing about any intention to reduce this service.

Mr. BLOUIN: Well, I am very glad to hear you say this because we have an excellent service at the present time and we would like to keep it.

Mr. MCGREGOR: And it is very well patronized. Thank you very much for your help.

Mr. BLOUIN: And I think it is a very profitable service.

Mr. MCGREGOR: Well, I would not commit myself to that.

Mr. BLOUIN: Thank you, Mr. Chairman. That is the only question I had.

The VICE-CHAIRMAN: Mr. O'Keefe?

Mr. O'KEEFE: Mr. Chairman, I certainly want to thank Mr. McGregor and Air Canada for the vastly improved service in the connecting flights coming from Newfoundland to Montreal and Ottawa. At least the flight attendant now tells the passengers the gate number to which they must go. Do you agree, Mr. McGregor, that the proper approach is to expect even better service?

Mr. MCGREGOR: In terms of what?

Mr. O'KEEFE: Of what has already been done.

Mr. MCGREGOR: I think it is quite true to say—and I am not trying to shoot a line here—that the service that this company has given over the years has shown pretty steady improvement, and certainly that is our aim.

Mr. O'KEEFE: I am not speaking facetiously, I am perfectly sincere.

Mr. MCGREGOR: I realize that.

Mr. JAMIESON: Do you get much useful material out of these requests for suggestions that you put aboard the planes?

Mr. MCGREGOR: Yes.

Mr. O'KEEFE: Thank you, Mr. Chairman.

The VICE-CHAIRMAN: Mr. Sherman?

Mr. SHERMAN: Mr. Chairman and Mr. McGregor, first of all I would like to commend Mr. Jamieson for his understanding and appreciation of the legitimate regional ambitions and aspirations for quality and equal treatment. Obviously there is a good deal of mutual sentiment between the west and the maritimes on subjects of this nature. Perhaps that is why the west and the maritimes get along so well.

With the Committee's indulgence, Mr. Chairman, I would like to revert to a question I asked this morning about employment totals at the Winnipeg base because there were figures that I had on my desk that I did not have at the morning session of the hearing and I want to get this on the record if I may. At the time this subject came up this morning, and I believe it was during my first round of questioning of Mr. McGregor, I made the point that there had been a steady and continuous decline of the cadre of trained personnel at the Winnipeg overhaul base.

Mr. MCGREGOR: You said it, sir, I did not. I do not think you made the point, though, because I read the figures.

Mr. SHERMAN: Well, I can make the point now, sir. My information had always led me to believe that this was the case and I did not have the figures in front of me that I wanted. May I have your indulgence for a moment. These are the figures, sir.

On the basis of the information that has been available to me, which is on the highest authority at the base, the union employed personnel for the years 1958 through 1964 are as follows. The total number of skilled union personnel at the Winnipeg overhaul base in 1958 was 1,164. This declined the next year to 1,074, increased slightly in 1960 to 1,102, dropped in 1961 to 894—that was the year that the Dorval overhaul base reached full capability—and in 1962 that figure went down to 889, in 1963 to 769 and in 1964, the last year for which figures were available, it increased by four to 773. So, in that seven year span, sir, the total declined from 1,164 to 773 which is almost 400, which is 35 per cent. I submit that that is a pretty significant decline when you consider that these are skilled personnel, that all or most of them have wives, that most of them have children, and most of them were making a pretty significant contribution to the economy of that community.

Mr. MCGREGOR: Now, none of the figures that you have read out check with the figures that I have under the heading—and I do not know what the union calls skilled and what they do not—of maintenance and overhaul personnel, which we pay and therefore we know the number—what is the year you began with?

Mr. SHERMAN: 1958.

Mr. MCGREGOR: 1958, 1,303; 1959, 1,283; 1960, 1,132; 1961, 884, not 894; 1962, 889; 1963, 774; 1964 1,003.

Mr. SHERMAN: Well, the difference is what? In your case it is 350 or so, and in my case it is about 400, but may I just add this one rider, that it is my understanding that some of that increase in personnel that you are referring to there has been hired in a strictly temporary category.

Mr. MCGREGOR: Some of it has.

Mr. SHERMAN: There is no assurance that this reflects any kind of a permanent stabilization of the permanent staff there?

Mr. MCGREGOR: No, the base is being phased out, sir.

Mr. SHERMAN: Well, I just wanted to get these figures on the record. On the basis of the conversation that you and I had this morning the impression, I think, was left that there had been no significant decline in personnel and I submit there has been.

Mr. MCGREGOR: Oh, I did not try to create that impression. I gave you the figures for December, January and February that showed there had been a slight hump up. The base is now maintaining and overhauling 39 Viscounts as against as high as 51 at one time. You would expect a decrease in personnel.

Mr. SHERMAN: So that this contravenes the general assurances, though, that the community has had over a ten year period that this operation would not be dissipated and eroded?

Mr. MCGREGOR: This has been stoutly maintained by Winnipeg as long as I can remember, and I do not know any basis for it.



Mr. SHERMAN: Well, we felt, sir, that the assurance had been pretty stoutly maintained by Air Canada through the person of yourself and other officials.

Mr. MCGREGOR: I made a complete dossier of all my statements and the closest I ever came to that was to say that I saw no reason—and I think this was in 1948 or 1949, although it may have been a year or so later than that—for a discontinuance of the Winnipeg base, and there were no such things as Viscounts or turbine aircraft at all at that time. The base was set up for the maintenance of North Stars and DC-3's and the few Lockheeds we had left and how anybody could foresee what has gone on since then, I do not know.

Mr. SHERMAN: Well, let me ask you one direct question, sir, that may put an end to this and put an end to the misery of my colleagues on the Committee who are suffering through it on my behalf, and for which I am grateful. May the Committee take it that the removal of the Air Canada overhaul base from Winnipeg to Dorval is a *fait accompli*. It is done, it is finished and nothing can be done about it?

Mr. MCGREGOR: It is not done. It is in the process of being done, yes.

Mr. SHERMAN: But the step is irrevocable.

Mr. MCGREGOR: Absolutely.

Mr. SHERMAN: As far as you are concerned nothing can be done about it. The removal is taking place and that is it.

Mr. MCGREGOR: Are we speaking of anything physical about this?

Mr. SHERMAN: Well, I am speaking of the case—

Mr. MCGREGOR: I do not think that the facility that represents the overhaul base is going to be allowed to fall down, surely. In fact, we have already been approached by a reputable person representing a reputable organization asking for a first refusal on it, and he got it.

Mr. SHERMAN: But the base as we know it, as it has been constituted in the past 10, 15 or 20 years as a Viscount overhaul base—well, the Viscount was not in service 20 years ago, but you know what I mean, I am speaking generally—that operation is being phased out irrevocably?

Mr. MCGREGOR: On behalf of Air Canada, yes.

Mr. SHERMAN: Well, thank you, sir. Now, I just have two or three other questions and I will be finished. Could you tell me if Air Canada's Winnipeg facilities are being utilized to the full at the present time?

Mr. MCGREGOR: Buildings, tools?

Mr. SHERMAN: Yes.

Mr. MCGREGOR: No, they cannot be because the work size has dropped from 50-odd aircraft to 39 aircraft.

Mr. SHERMAN: So when you talk about being responsible to the taxpayer and responsible for the economic operation of Air Canada, at the present time you are not operating the Winnipeg base entirely economically and entirely efficiently?

Mr. MCGREGOR: In so far as the physical facilities are concerned, I think this must be right. This is one of the reasons we want to shut it down.

Mr. SHERMAN: Mr. Jamieson asked you two or three questions that were of extreme importance and of great concern to the people in my community. I appreciate the answers that you gave to those questions, Mr. McGregor. If I may, could I ask you to elaborate on one or two aspects of them. Do you have any thoughts—personal, collective, or otherwise—on the developing trend in terms of operation and operational usage of the Winnipeg base and other major prairie airports, such as Edmonton and Regina, in the future? Do you have any prognosis on the future expansion possibilities to which they may be put?

Mr. MCGREGOR: Well, I might like to refer that question to Mr. Seagrim, but basically Winnipeg will continue to be a line maintenance base after the over-haul base has closed down.

Mr. SHERMAN: Mr. Seagrim, do you want to expand on that answer?

Mr. H. W. SEAGRIM (*Executive Vice President, Air Canada*): Well, Mr. McGregor's statement was quite correct. We would continue to do a certain amount of line maintenance at Winnipeg, along with other major stations such as Vancouver, Halifax, or Toronto. It must also be kept in mind that all these airports in western Canada that you mentioned are going to benefit by increased volume in passengers, cargo and mail over the years, and the capital expenditures that will be made in that connection.

Mr. SHERMAN: Do you feel that you could predict with any degree of accuracy that the employment situation at those airports, and particularly at Winnipeg, will improve rather than retrogress because of the expansion envisioned?

Mr. SEAGRIM: Across the board, in the long term?

Mr. SHERMAN: Yes.

Mr. SEAGRIM: Yes, definitely.

Mr. SHERMAN: What possibilities are there, sir for more international flights into airports such as Winnipeg and Edmonton?

Mr. MCGREGOR: As we discussed this morning, I think, that is permitted only under bilateral agreements. There is no trans-border flight ever flown unless it appears as a route on the appendix to a bilateral agreement.

Mr. SHERMAN: But there is such a thing as a table of five freedoms, or six freedoms, or something. Are there not five freedoms in the air, and you can enjoy two or three of those freedoms without necessarily enjoying them all?

Mr. MCGREGOR: If we get into the freedoms, it is quite a business. The third and fourth freedoms are the right to operate with traffic between two countries in both directions. The fifth freedom is the right to operate an international flight between a second and a third country with traffic privileges; that is all. There is a so-called sixth freedom, but it is more or less imaginary. A route is either in a bilateral agreement or it is not. That is the situation with respect to the Chicago-Winnipeg route that we were talking about this morning or, for that matter, any other point in the United States out of Winnipeg.

Mr. SHERMAN: Is there any possibility, for example, that facilities like those existing at Winnipeg which are now doomed for phase-out could be utilized

under some agreement or bilateral agreement that would involve use by international carriers from other countries?

Mr. MCGREGOR: If the aircraft type operated by a foreign airline was well associated with the facility. You see, an overhaul facility is not like a garage which has a spanner of each size and can take any car apart; the tooling is very specialized. So are many other things such as lifting equipment. That is why I said this morning that the only possibility of projecting the activity at Winnipeg would be a completely new base.

Mr. SHERMAN: One final question, sir. Concerning the completely new prospects with respect to the air cargo and the air freight services that have been discussed in the past, the expansion possibilities there and the question that Mr. Jamieson asked a few moments ago, are the employees of the Winnipeg overhaul base being fully acquainted with job opportunities that will be available through these new cargo and freight centres? Will they require any retraining, and will it be available?

Mr. MCGREGOR: I do not think they are well related because a man serving on a cargo terminal, which is the reference I made to plans, would not be paid as much as a mechanic at the base today. Therefore, the probability is that he would bid in on one of the jobs opening elsewhere in the company.

Mr. SHERMAN: Thank you, Mr. President, and thank you, Mr. Chairman.

The CHAIRMAN: Gentlemen, before there are further questions may I explain to you that Air Canada's capital budget will be dealt with by Mr. McGregor and his officials; the others will be dealing with the other reports. If there are any questions on that budget, please bring them up now. Mr. Rock?

Mr. ROCK: Mr. Chairman, I would like to ask Mr. McGregor some questions with reference to the financial report. On page 5 you have an amount of \$11,579,581 interest paid on loans; you also have a dividend of \$4 per share.

Mr. MCGREGOR: Yes.

Mr. ROCK: On page 21 you have authorized 250,000 shares at a par value of \$100 per share, and then below that line you have "issued and fully paid, 50,000 shares".

Mr. MCGREGOR: Yes.

Mr. ROCK: Could you explain who actually paid for and owns these 50,000 shares? Is it Air Canada or CNR?

Mr. MCGREGOR: Canadian National Railways.

Mr. ROCK: Did they actually pay for these shares?

Mr. MCGREGOR: Yes.

Mr. ROCK: What about the other 200,000 shares?

Mr. MCGREGOR: They are not issued.

Mr. ROCK: They are not issued?

Mr. MCGREGOR: No.

Mr. ROCK: Then you have "loans and debentures—Canadian National Railways; notes payable" \$55 million-odd and then debentures of \$180 million.



This means, actually, on capital shares of only \$5 million you are authorized to borrow \$180 million and \$55 million?

Mr. MCGREGOR: That is correct.

Mr. ROCK: Well, I am amazed that a company can have just \$5 million of capital shares and on that \$5 million can borrow \$180 million and \$55 million.

Mr. ORLIKOW: They are borrowing it on the government's credit, not on the company's credit; you should know that.

Mr. ROCK: That is quite all right. What I wanted to ask is whether it would not be more feasible to reduce these loans and debentures and issue out to the public, say, the 200,000 shares at \$100 per share? I am trying to get out of this idea of the government owning everything all the time, or through CNR. You are still paying interest to CNR on these debentures and to the shareholders \$4 per share. Possibly it is about the same amount so far as interest is concerned and I cannot see why we should have a debt like that. I feel that possibly 200,000 shares at \$100 per share should be sold to the public and debentures and notes payable reduced. What are your comments on this?

Mr. MCGREGOR: Well, Mr. Rock, I think your basic point is that there is an imbalance between the debt capital and the equity capital in the company; I agree the equity capital proportion is very, very small.

On the other hand, the existing stockholder has not shown any interest in buying any of that other \$20 million; whether the public would or not is open to question. After all, it is a 4 per cent yield at the present dividend rate and at the par value, which is getting obsolete now, of \$100.

Mr. ROCK: This is the other question I was going to ask you, Mr. McGregor. Is the par value just a stated value, and that is it, and there is no fluctuation because it is not on the market?

Mr. MCGREGOR: Well, if it were on the market there might be fluctuation, but as you know, most stocks—new issues anyway or issues during the last 15 years—are no par value stocks, but that was the way the company was constituted in 1937.

Mr. ROCK: Then you would have no objection to the public buying Air Canada shares if they were allowed to do so?

Mr. MCGREGOR: I certainly would have no objection. I have always wanted the employee group to be able to have a financial interest in the company.

Mr. ROCK: This is what I was going to ask; like the Bell Telephone Company, for instance, which is a public service—and I think they are doing a good job—where most of the capital comes from the public and quite a bit from the employees—

Mr. MCGREGOR: That is true.

Mr. ROCK: —and it gives them a chance to become owners of their own firm, more or less. I think it is a good example; it is a fight and the answer against socialism.

An hon. MEMBER: That is a dandy; that is a good one.

Mr. ORLIKOW: Do not argue with me; find Mr. Howe and argue with him. He is the one who set the company up.

Mr. ROCK: Now, at page 20 could you explain to me: accounts receivable, Government of Canada \$3,177,303, under current assets? Why do they owe Air Canada \$3,177,303?

Mr. MCGREGOR: Well, it nearly always does owe us about that amount, and that is the way the year ended. This is principally for mail carriage.

Mr. ROCK: Oh, I see.

Mr. MCGREGOR: This is a steady non-interest-bearing loan.

Mr. ROCK: I would like to just say something about what Mr. Jamieson said. He referred to the middle part of Canada as the "hunk".

An hon. MEMBER: "Hump."

Mr. ROCK: He said, "hunk."

An hon. MEMBER: No, he said "hump".

The CHAIRMAN: Can we get back to the question, Mr. Rock?

Mr. ROCK: Well, I just wanted to say that this supposed "hump" is sometimes referred to as the milk cow of Canada also. In reference to the Winnipeg overhaul base, since there has been a decrease in personnel for overhaul have all of these employees had the privilege of being transferred to other parts of your company?

Mr. MCGREGOR: Yes.

Mr. ROCK: How many of them have taken this opportunity to transfer?

Mr. MCGREGOR: Just a moment, Mr. Rock. It would appear to be 44.

Mr. ROCK: Forty-four, out of how many?

Mr. MCGREGOR: It is not very clear from this chart; may we give you that information by mail?

Mr. ROCK: Yes, very well. Thank you.

The CHAIRMAN: Perhaps you could send it to the clerk of the Committee, Mr. McGregor, and he can have copies made and distributed to members of the Committee.

Mr. ROCK: That will be all, Mr. Chairman.

The CHAIRMAN: Mr. Orlikow?

Mr. ORLIKOW: Mr. McGregor, a number of members asked questions about the possibility of Air Canada divesting itself of some of the routes which are not on the main transcontinental line and turning these over to regional air carriers. Now, these are the lines which, as I think you indicated earlier, both this morning and this afternoon, on the whole are losers financially.

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: I wonder whether you would care to comment on the possibilities if this step were taken? One of two things would have to happen: Either the flight rates would have to be raised on these short or regional routes, or the government of Canada would have to subsidize the private regional air carriers. Is there another alternative which I have missed?

Mr. MCGREGOR: I beg your pardon?

Mr. ORLIKOW: Is there a third alternative which is possible and which I have not thought of?

Mr. MCGREGOR: Only the existing one, the cross-subsidization within the company, which I think you mentioned previously.

Mr. ORLIKOW: I am sorry?

Mr. MCGREGOR: Cross-subsidization within the company; within Air Canada.

Mr. ORLIKOW: You indicated earlier today that you are, in effect, subsidizing these branch routes.

Mr. MCGREGOR: That is right.

Mr. ORLIKOW: If you divested yourself of these routes, then either the government would have to subsidize these regional air carriers directly, or the rates would have to be raised to the point where they would carry themselves.

Mr. MCGREGOR: There is a very unpalatable third alternative, and that is that the service be discontinued as was the case west of Regina.

Mr. ORLIKOW: This would, of course, immediately create a demand on the part of the people who now use the routes, or who may want to use the routes, that the routes be continued.

Mr. MCGREGOR: Unquestionably.

Mr. ORLIKOW: If the government were to divest Air Canada of these routes, in your opinion it would create just as many problems as might be removed from Air Canada?

Mr. MCGREGOR: I believe this is the case particularly from the experience of other countries who have got themselves into very expensive subsidization programs.

Mr. ORLIKOW: There were some questions asked this morning, I think, about charter flights. I am given to understand that there has been a marked increase during the last year or so in the number of cheap charter flights offered by a number of companies. I am told, for example, that there are advertisements appearing which offer an opportunity to fly to Ireland—I think that was the illustration given to me—for 10 days or two weeks and the price of the hotel is included for about the price of the regular air flight now.

Mr. MCGREGOR: Yes, they call them “all inclusive tours”.

Mr. ORLIKOW: At a pretty substantial reduction?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: When it is able to purchase more planes—and you mentioned the difficulty you are having at the moment—is Air Canada giving study to the possibility of going into that kind of business?

Mr. MCGREGOR: It is in it.

Mr. ORLIKOW: Are you studying the possibility of an expansion of that type of business?

Mr. MCGREGOR: Not under the present circumstances but, as a matter of fact, our charter operation went down in 1966 from 1965, and it probably will go



down again in 1967. But, as you say, when the situation with respect to equipment improves, as it must, then I think that trend will reverse.

Mr. ORLIKOW: Mr. Chairman, I would like to discuss another aspect with Mr. McGregor. I notice on page 15 of your report you mention that at the end of 1966 you had over 14,000 employees.

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: I wonder, Mr. McGregor, how many—in round figures—of those employees would be members of various unions and covered by union agreements?

Mr. MCGREGOR: We will give this to you exactly; 9,410.

Mr. ORLIKOW: So, roughly 9,500 of your employees are union members, and 5,000 are not.

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: How many unions are covered by agreements? Could you tell me that?

Mr. MCGREGOR: Yes, I can give it to you, but it will sound slightly ridiculous because quite a few of our unions cover a very small number of specialized people, such as dispatchers, and so on. There are 10 unions.

Mr. ORLIKOW: Now, Mr. McGregor, the strike which took place in November, 1966, as I understand it, was called by one union.

Mr. MCGREGOR: That is right; the biggest one.

Mr. ORLIKOW: By the International Association of Machinists and Aerospace Workers, is that correct?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: I am sure you are aware of the fact that there was correspondence between at least one of the unions, and probably more that I have not seen, and the Prime Minister and the Minister of Transport. The complaint was made that the 5,000 employees of Air Canada who do not belong to unions—office and supervisory employees, and so on—were paid their salaries for the period of the strike, but that employees who were covered by union agreement—I am thinking now of the 4,500 who do not belong to the International Association of Machinists and Aerospace Workers—who were not working because there was a strike but not a strike which their union had called, were not paid for this period?

Mr. MCGREGOR: That is correct.

Mr. ORLIKOW: You are aware, of course, of the fact that a number of them—not all of them—feel that the company discriminated between those employees who are not members of unions and those who are members of unions?

The CHAIRMAN: Mr. Orlikow, this is a matter for labour-management negotiation and not a matter for this Committee at the present time. We are dealing with the annual report and the capital budget of the company. You may have a legitimate question but I do not feel it is pertinent to the hearing before this Committee.

Mr. ORLIKOW: Well, Mr. Chairman, I think anything which has to do with the operations of the company and the morale of the employees comes within the jurisdiction of this Committee. I have no intention of carrying on this line of questioning for days. I think this is the first—

Mr. MACEWAN: It is in the report.

Mr. ORLIKOW: Yes, I know it is part of the report on pages 14 and 15 but I think, Mr. Chairman, that all the employees would appreciate a short statement from Mr. McGregor to explain from the point of view of the company the difference in treatment between the 5,000 employees who do not—

The CHAIRMAN: Mr. Orlikow, I will let this question go but I do not think this line of questioning about labour-management negotiations as far as strikes are concerned is in our proper purview at this time.

Mr. ORLIKOW: It is in the report.

The CHAIRMAN: I notice that it is in the report. That is the only reason I am letting this one question go. Your line of questioning is going into deeper things, I think, but I will let Mr. McGregor answer this one.

Mr. MCGREGOR: Mr. Orlikow, it may appear to you and other people that there has been discrimination; in fact there was not. The clerical people were not laid off. They were kept at work, of which there was plenty for them to do, and they were paid for that reason. This is not true of the other organized employees of the company, once flying had stopped. There was a perfectly logical plan for progressive lay-offs of clerical personnel if the strike had continued.

Mr. ORLIKOW: In other words, what you are saying is had the strike continued and had the work which the various people still had to do come to an end, then they would have been laid off.

Mr. MCGREGOR: Yes, they would have been treated just the same.

Mr. ORLIKOW: What about the supervisory staff?

The CHAIRMAN: I think, Mr. Orlikow, we will just cut it right there on both sides of the table. You may proceed with your questioning. You have a couple of minutes left.

Mr. ORLIKOW: That is all at the moment, Mr. Chairman.

Mr. REID: Mr. McGregor, we have had a most interesting discussion about the Winnipeg base. Do you think it would be possible to tell us what the direct cost to Air Canada will be in keeping the Winnipeg base open to service Viscounts? What has it been from 1961 to the present time, or could you work it on an annual basis?

Mr. MCGREGOR: I am certain that point was referred to by the Thompson Commission. Have you looked for it there?

Mr. REID: There are a variety of estimates given in the Thompson Commission report. But what has been the actual practical cost?

Mr. MCGREGOR: I would have to look it up. A calculation was presented to the Commission on that point, I know.

Mr. REID: Yes, but since the Commission has reported you must have some practical experience of what it costs?

Mr. McGREGOR: Well, there is about a year more experience since the Commission.

Mr. REID: Do you have any estimate of the cost indirectly as a result of the under-utilization of the Dorval base?

Mr. McGREGOR: For the record, no.

Mr. REID: It is very difficult to come to any sort of understanding of this type of regional problem unless we can find out how much it would cost so that we can put some sort of price on it.

Mr. McGREGOR: We can answer the first part of the question.

Mr. REID: Right; now, dealing with the Annual Report, at page 18 you have a very attractive graph at the bottom of the page dealing with operating and total costs per available ton-mile. Does the light coloured section which takes up a very small proportion of your graph involve capital expenses and interest expenses?

Mr. McGREGOR: Capital services, yes; mostly interest.

Mr. REID: Mostly interest, but it does not include the direct capital cost?

Mr. McGREGOR: No.

Mr. REID: In the auditor's report to Parliament, on page 6 you have debentures maturing at around \$32 million this year and next year. Are you going to retire these?

The CHAIRMAN: Mr. Reid, the auditors will be dealing with the auditor's report themselves, not the officials of Air Canada.

Mr. REID: Well, it has to do with debentures which Air Canada has outstanding and I want to know what their plans are. Are they going to refund them, or retire them or what? Would this be information which the auditors could be expected to provide?

Mr. McGREGOR: With respect to this early maturity, to refinance them.

Mr. REID: To refinance them. Is it possible for Air Canada or any other air line operating in Canada, for example, to raise its fares unilaterally or must you go through ITA.

Mr. McGREGOR: There is an odd sort of arrangement. The fares have to be filed with the Air Transport Board. They will then go into effect unless they are denied. In other words, specific approval is not a requirement and if there is a specific disapproval then the application is denied.

Mr. REID: Is it only international fares that are agreed upon?

Mr. McGREGOR: That is right.

Mr. REID: In other words, from a practical point of view, assuming permission was not denied, it would be possible for Air Canada to raise its fares in order to meet, say, capital expenses or increased operating expenses?

Mr. McGREGOR: All fare structures are related against their basic effect and all air travel is particularly sensitive to the fare level. You obviously quickly get to the point of diminishing returns. You raise the fares and you take in less money because you fly less people. We have been working on the other tack.



Mr. REID: Lowering fares and carrying more people?

Mr. McGREGOR: Yes.

Mr. REID: Will you be able to give me that information on the cost?

Mr. McGREGOR: Yes.

Mr. BYRNE: Mr. McGregor, I wonder whether you could tell me first the approximate value of the equipment that was turned over to TransAir as a result of the TransAir deal?

The CHAIRMAN: We have said it a number of times, Mr. Byrne; \$250,000.

Mr. BYRNE: It has been said that this was or appeared to be a very improvident arrangement. I would just like to establish some factors. I am not at all sure whether it was provident or improvident, but, I would like to question it.

Mr. McGREGOR: I am in no doubt about it. It saved us a great annual loss.

Mr. BYRNE: Could you tell me, please, what was the value of the equipment?

Mr. McGREGOR: The Viscount was worth at that time, in our opinion, \$250,000. It was suggested this morning that we call the two DC-3's \$5,000 each. So, we call the whole thing \$260,000.

Mr. BYRNE: That included all equipment; ground equipment and so on?

Mr. McGREGOR: Yes.

Mr. BYRNE: Now, at the time this agreement was reached was there another air line operating in what is known as the Prairie region or the southern Prairie region?

Mr. McGREGOR: No.

Mr. BYRNE: Pacific Western Airlines had gotten out of this?

Mr. McGREGOR: They had a route to the north but not in connection with this route. This is basically east-west.

Mr. BYRNE: This did not include any previous operations of Pacific Western?

Mr. McGREGOR: No.

Mr. BYRNE: Then, what is the actual route of TransAir at the moment?

Mr. McGREGOR: West from Winnipeg to Brandon to Regina and then north. Has anybody got the details of that?

Mr. SEAGRIM: Churchill, Thompson, The Pas, Lynn Lake.

Mr. BYRNE: Could you estimate your annual loss at that time?

Mr. McGREGOR: Yes, it was \$300,000.

Mr. BYRNE: \$300,000 annually?

Mr. McGREGOR: Yes.

Mr. BYRNE: And this agreement has been in existence since 1963?

Mr. McGREGOR: I think that is right.

Mr. BYRNE: That would be something like \$1,200,000. In other words, it is conceivable that had you continued since 1963 to provide the service that TransAir had been providing, you could have lost \$1,200,000?

Mr. MCGREGOR: Right, sir.

Mr. BYRNE: But the actual value of the equipment to TransAir was \$260,-  
000?

Mr. MCGREGOR: That is correct.

Mr. BYRNE: I would say that was a provident arrangement.

Mr. MCGREGOR: I thought so. We have always thought so.

Mr. ORLIKOW: To Air Canada?

Mr. MCGREGOR: Yes.

Mr. ORLIKOW: Not to the government of Canada.

Mr. BYRNE: To the taxpayers of Canada.

Mr. CANTELON: This afternoon we had some discussion about regional air carriers and the fact that in order to keep them in operation it was probably necessary to give them some kind of subsidy, and that was the only way you could have kept in operation and broken even. Of course, the government position on the new transportation legislation is that each phase of transport—if I could just paraphrase it roughly—is supposed to produce its own costs, so that would seem to suggest there is not much possibility of regional air carriers getting any subsidy. This led me to look at P.C. Order 1967/330, at the bottom of which the suggestion is made that there will be expenditures in the next 12 years of some \$300 million for a superjet. How do you intend to finance those \$300 million?

Mr. MCGREGOR: All but about \$500 million—

Mr. CANTELON: You do not mean that; \$300 million.

Mr. MCGREGOR: Wait a minute, are you on the capital budget?

Mr. CANTELON: Yes.

Mr. MCGREGOR: I expect that will be financed just the way we have been financed in the past, with a large portion of the capital requirement being generated within the company and the remainder becoming additional debt. I would be remiss if I did not point out that the capital expenditures over the next 12 years will be much more than that. That is purely for SSTs.

Mr. CANTELON: It was that particular portion that I was referring to. You do not expect to be borrowing money from the federal treasury for that?

Mr. MCGREGOR: Yes, if the present arrangement continues, through the medium of the CNR.

Mr. CANTELON: Through the CNR?

Mr. MCGREGOR: Yes.

Mr. CANTELON: You would not call that a subsidy?

Mr. MCGREGOR: No; we pay a whopping amount of interest on it.

Mr. CANTELON: And there is some prospect that you will return the capital some day?

Mr. MCGREGOR: If the industry continues to grow, I think its requirement for capital will grow also.

Mr. CANTELON: I am afraid that answer avoids my question.

Mr. MCGREGOR: I did not intend to avoid it.

Mr. CANTELON: You see, what I am getting at is that in this case it is a type of subsidy. You are paying interest on it, do not misunderstand me; I understand that very well. But if there is no prospect of the money being returned it is, in effect, a type of subsidy. So, I feel it violates the basic principle of the transport legislation. Of course, I do not believe in the basic principle of that legislation myself. I think this sort of thing has to be done if we are going to have adequate transportation in this country—air, rail or anything else. This is the point I want to make.

The CHAIRMAN: Mr. Rock do you have one question?

Mr. ROCK: Yes. With respect to the \$10 million in the insurance fund, I was surprised that you would act so fast to replenish your insurance fund after that accident. I understood it was going to be depleted by the serious accident you had out at Ste. Thérèse. Was that depleted at the time and now it is replenished?

Mr. MCGREGOR: It has been built since.

Mr. ROCK: That is very good. Let me conclude on the line of questioning I was following the last time I spoke, Mr. McGregor, about issuing shares rather than borrowing money on debentures. Would you not feel that this would be a good idea now that the maturing dates for the \$32 million, 1967 and 1968, will soon be here? I do not know how you would do this, but would it be your prerogative to ask certain powers of the federal government to change the Charter of Air Canada, or would it be Parliament itself at this point?

Mr. MCGREGOR: It would be necessary, perhaps, to a degree because the present act requires that the securities of the company be owned only by Canadians. If the market were to be thrown wide open that restriction, I take it, would have to be modified. But with respect to this unissued stock, the first thing that has to be found is a purchaser.

Mr. ROCK: Well, who purchases these bonds right now?

Mr. MCGREGOR: The CNR.

Mr. ROCK: Yes, but then they borrow somewhere else.

Mr. MCGREGOR: Yes, from the government, or from the street occasionally.

Mr. ROCK: Therefore would it not be a good idea, say, if the Government itself were to be owner of 50 per cent of the Air Canada shares and pay out this money for capital stock to Air Canada? It seems that your debt would not be so much as it is here. The balance could be owned by the Canadian public with, say, a limited amount per person, or something like that, so it will not be in the hands of certain financial syndicates.

Mr. MCGREGOR: Well, Mr. Rock, would you be prepared to say that a 4 per cent yield on equity capital would be a very attractive thing on the market today?

Mr. ROCK: No.

The CHAIRMAN: I am sure Mr. Rock's philosophy would say, no.



Mr. ROCK: No, definitely not Mr. McGregor. I do not think you will get 4.91 or 4 per cent on the next bond issue you float through the CNR, but I am sure you will get it now at 5½ or nearly 6 per cent.

Mr. MCGREGOR: We have already been told that.

Mr. ROCK: You have been told that, so therefore I think the public are prepared to buy issues at 5½ and 5¾ per cent that would be due at this time anyway. I do not think you have any alternative but to go according to the market. Is that correct, Mr. McGregor?

Mr. MCGREGOR: Yes.

Mr. ROCK: That is all, Mr. Chairman.

Mr. SCHREYER: Mr. McGregor, there were some questions just a few minutes ago about the loan requirements of Air Canada and there was some suggestion that they will really be in the form of an indirect subsidy by the government of Canada. This was in reference to the \$300 million.

The CHAIRMAN: That was a suggestion by Mr. Cantelon.

Mr. SCHREYER: Yes, but I want some clarification. I believe, Mr. McGregor, you said that Air Canada pays a whopping interest on this. What do you mean by "whopping"?

Mr. MCGREGOR: It amounts to an average 4.9 per cent over some 15 years of borrowings.

Mr. SCHREYER: In other words the loan is fully compensatory.

Mr. MCGREGOR: Completely. We pay the CNR exactly the same interest rate as the CNR has been required to pay to the Government from time to time as these loans have been floated.

Mr. SCHREYER: Would there be any practical advantage to changing the organizational structure of Air Canada so that it stands on its own?

Mr. MCGREGOR: I think just the one that we touched on a moment ago; if there were equity capital available for issue to employees on a salary deduction or other basis it would be a good morale builder.

Mr. SCHREYER: The \$200,000 in dividends paid out in the last fiscal year is paid out on the basis of how much?

Mr. MCGREGOR: Four dollars a share.

Mr. SCHREYER: Are there 50,000—

Mr. MCGREGOR: There are 50,000 shares.

Mr. SCHREYER: Just as a matter of interest, who holds these shares?

Mr. MCGREGOR: CNR.

Mr. SCHREYER: Exclusively?

Mr. MCGREGOR: Exclusively.

The CHAIRMAN: A completely wholly-owned subsidiary of CNR. That is the only correct definition of that.

Mr. SCHREYER: I understand that in the past year or two Air Canada has discontinued its practice of doing maintenance and overhaul work for certain foreign airlines such as Air France, Icelandic Airways, etc. Is this a fact?

Mr. MCGREGOR: I do not think that we ever did overhaul work for any of them. The only overhaul we do is for CPA's engines. I am talking with my ear cocked for any correction from Mr. Seagrim. We do certain air line servicing of foreign air lines where they touch down, as they do for us.

Mr. SCHREYER: So that you have not discontinued maintenance work for foreign airlines?

Mr. MCGREGOR: Not that I know of.

Do you know of any cases, Mr. Seagrim?

Mr. SEAGRIM: No. This is a varying situation. It is a pricing situation. Sometimes at Montreal, for example, we are competing with another organization, namely, Bristol, to provide service to another airline; and they will quote a better price and we will lose this business. But we still provide service to a number of air lines across the country.

Mr. SCHREYER: Is this a profitable sideline of your operation?

Mr. MCGREGOR: Yes, we set prices to establish that it is a profitable sideline.

Mr. SCHREYER: One question with regard to the line maintenance work. I take it that there must be about 20 centres at which line maintenance is carried out within Canada?

Mr. MCGREGOR: I think that would be fairly close, yes.

Mr. SCHREYER: And do these places where line maintenance is carried out vary in sophistication?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: That is to say, some of them do rather more complete work than others?

Mr. MCGREGOR: Yes. It depends quite a lot on whether the aircraft is, as we say, turning around at that point rather than just using it as a stopping point on a through flight, in which case there would be very little done that was not absolutely essential. But a place like Halifax has a substantial maintenance base; and there is another at Vancouver.

Mr. SCHREYER: Mr. Chairman, I have just two more questions to complete some earlier questioning.

I want to hark back to the question of this deal that was made between Air Canada and TransAir. Mr. McGregor, you led us to believe that it was worthwhile from your organization's point of view because it enabled you to get away from this annual loss which was in the order of \$300,000?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: You gave the figure for the value of the Viscount at, I think, \$250,000. Is that book value or market value?

Mr. MCGREGOR: Book value, I would think.

Mr. SCHREYER: Well, could you give me a rough idea what the market value might have been? What is the ratio?

Mr. MCGREGOR: Well, we did not touch the market at that time, as I remember. The book value as of December 31, 1962, was \$233,000.

Mr. SCHREYER: Sir, I am not too well acquainted with finance, but I understand that book value and real or market value are sometimes quite different?

Mr. MCGREGOR: That may be.

Mr. SCHREYER: Without appearing to be too persistent about it, I would still like to get some idea of the market value.

Mr. MCGREGOR: I would like to be able to help, but unless we had sold an aircraft of about that age at about that time I could not have much of an idea what the Canadian market was for Viscount aircraft.

Mr. SCHREYER: All right; I will desist on that point and come around to this: I grant you that it represented a saving to Air Canada to be able to make this deal, but could you not have applied to the Air Transport Board, as did TransAir, and apply for discontinuance of that unprofitable line?

Mr. MCGREGOR: Yes, we could have.

Mr. SCHREYER: And you could have effected a saving that way, assuming that it would have been—

Mr. MCGREGOR: If we had obtained the required permission, yes.

Mr. SCHREYER: Why should the Air Transport Board adopt to Air Canada a different attitude than it would to TransAir, in the case of which it did actually grant permission?

Mr. MCGREGOR: I think that the Air Transport Board has had rather an unhappy experience. We applied to the Air Transport Board for permission to discontinue a service to Kapuskasing, and we were given it. There were some rather unhappy things happened, after that. Therefore, I think that the Air Transport Board would have been somewhat less anxious to grant our request in that case.

However, this is not what was entailed. Do not forget that the airports were not capable of accepting anything bigger than a DC-3 and that we had gradually been forced into the position of having two DC-3's and their crews and their maintenance equipment just for that route. We were quite prepared to carry on forever if the airports had been made suitable for the use of Viscounts, and we said so at the time.

Mr. SCHREYER: Well, would it be fair to say that perhaps one reason for your asking this kind of arrangement to get away from the unprofitable route was because you knew full well that if you did apply to the Board it would, in all likelihood, reject your application?

Mr. MCGREGOR: No.

Mr. SCHREYER: Because there seems to be a tendency to be a little more demanded of Air Canada than of some of the other regional lines?

Mr. MCGREGOR: It might be unfair to agree, but I am inclined to feel the same way.

Mr. SCHREYER: Finally, Mr. Chairman, the chart on page 16 of the annual report, showing the relationship between revenue passenger miles and available seat miles, would seem to show that there is a very definite upper limit to passenger load factor achievement. It seems to be around 71 per cent, or



thereabouts. Is this because this is the technical limits of the air line or air lines in general, or is it because Air Canada has to maintain certain routes that are not what you would call high-density routes?

Mr. MCGREGOR: Well, you must keep in mind that that is an over-all system average—

Mr. SCHREYER: Yes.

Mr. MCGREGOR: —across the year, and it therefore tends to be a misleading figure. That 71 has occurred only once, and that was ten years ago. Since then we have struggled to keep the load factor in the area of 65, believing that to be a level at which we can at least break even and at the same time give a good quality of service; because if that load factor rises, then, as I said this morning, the proportion of requests for space on flights, particularly the popular ones—the Fridays, and in the Junes and the Julys, and so on—deteriorates rapidly.

Mr. SCHREYER: Will the advent of computerization in ticketing, and so on, enable you to creep upward with your passenger load factor?

Mr. MCGREGOR: We hope so.

Mr. SCHREYER: But it has not really produced results yet?

Mr. MCGREGOR: Not yet.

Mr. SCHREYER: Thank you.

The CHAIRMAN: Mr. Gray, do you have one question?

Mr. GRAY: I have one or two brief questions. I know these are long days for Mr. McGregor and his associates, and I might remark in passing that the questions here often reflect areas of potential dissatisfaction, or areas where views are expressed with respect to improvement. I do not know that there is very much said here about the things that Air Canada is doing very well. I presume that we are all taking that for granted and that we take that as having been said.

Mr. MCGREGOR: Thank you.

Mr. GRAY: You said it, Mr. O'Keefe. Mr. O'Keefe has a habit of saying the right thing at the right time.

Mr. O'KEEFE: Thank you.

Mr. GRAY: In any event I want to return to my questions about scheduling—

Mr. SHERMAN: He took care of the exit gates in Newfoundland.

Mr. O'KEEFE: Montreal.

Mr. GRAY: It occurred to me, on reflecting on your answers to my questions about scheduling, that this problem of the long lay-over in Toronto might very well affect the on-going traffic not only to Ottawa but also to Montreal. Now inasmuch as a lot of the business in Windsor for Air Canada is really business originating in Detroit and the American mid-west, I am just wondering, really, whether my surmise is correct about what is happening with your schedule and whether you are really going to be able to do a proper job of meeting your obligations to carry traffic from Detroit and the mid-west through the Windsor gateway to Montreal for Expo? Could you deal with that question for me?

Mr. MCGREGOR: I do not think that I can, definitively. We are, as I have said perhaps a dozen times today, confronted with a serious equipment situation which we are doing our best to work to the highest limit that we can. Now this cannot be done and still give good connections everywhere.

Your specific case may be a very special one, which we will certainly look at.

Mr. GRAY: Yes; well that leads to my next question actually. You will undertake then to look into the scheduling between Windsor and Toronto and on-going points to see what might be done by way of improvement?

Mr. MCGREGOR: We will.

Mr. GRAY: One final question is the problem I have alluded to between Windsor and Toronto. Is this reflected in the connections between Ottawa and other parts of the country? In other words, has there been a reduction in the connections between Ottawa and Toronto and other areas?

Mr. MCGREGOR: Do you mean the connection at Toronto?

Mr. GRAY: Well, take that for a start. For example, are there a smaller number of flights between Toronto and Ottawa, whether they connect with Windsor flights or not? I am concerned that—even though I realize your problems of maximum use of aircraft and so on, that Ottawa in a sense will not become more isolated than some people think it is already from the life of this country? I am not saying that I accept that contention but it seems to me that this national air line has a special obligation to make sure that there are very good connections between Ottawa and the rest of the country so that the people can maintain personal contact with it and vice-versa.

Mr. MCGREGOR: There are ten flights a day between Toronto and Ottawa. That is not very isolated.

Mr. GRAY: How many were there before?

The CHAIRMAN: How many in the morning, Mr. McGregor?

Mr. MCGREGOR: There has never been more than that, to my knowledge, in the wintertime.

Mr. GRAY: And has there been a shift in the time? In other words, are there four flights in the morning?

Mr. MCGREGOR: I beg your pardon?

Mr. GRAY: Are there fewer flights in the morning than there were before?

Mr. MCGREGOR: There are four in the morning. Now, you do understand, sir, that basically we reduce our frequency so as to meet the seasonal fall off in traffic in the winter months and increase it again in the spring, with usually a growth margin representing the year to year growth.

The CHAIRMAN: I think what Mr. Gray is getting at is that there is now a timetable schedule effective May 1st for May and June, say Totonto to Ottawa, for say the 11 o'clock flight which is a convenient flight for many that is now 9 and 12.15. I think this is the point—one of the points that this Committee is driving at which is causing a great deal of disturbance—

Mr. MCGREGOR: I do not have a May-June schedule.

Mr. GRAY: It is not merely the number of flights; it is the time they leave.

Mr. ROCK: This is a matter of personal interest.

Mr. GRAY: I think this is a matter of interest to this Committee—if we could drive or take the train or use roller skates, like Mr. Rock, why we would not perhaps exhibit the same interest but I think this reflects the interest of business people and citizens generally in remaining in contact with the capital.

The CHAIRMAN: Perhaps Mr. McGregor could look into this.

Mr. GRAY: Just to conclude, Mr. McGregor, I wonder whether I could pursue this matter with you in correspondence? Would this be appropriate?

Mr. MCGREGOR: Quite appropriate.

The CHAIRMAN: Yes, I think so; because we are very anxious to get on to the auditor's report. I have Mr. Bell as the last one on the list now.

Mr. BELL (*Saint John-Albert*): Can we envisage around-the-world service in the near future?

Mr. MCGREGOR: No.

Mr. BELL (*Saint John-Albert*): There is no advantage in it?

Mr. MCGREGOR: Not in the near future; and it is bilaterally impossible.

Mr. BELL (*Saint John-Albert*): Well, we have taken into consideration though trans-world service in the different lines. I mean, I have noticed you are into Los Angeles and then you are into Moscow.

Mr. MCGREGOR: Oh, you mean with a combination of airlines?

Mr. BELL (*Saint John-Albert*): Yes.

Mr. MCGREGOR: Oh, yes; that is always possible.

Mr. BELL (*Saint John-Albert*): How about traffic control? Are you happy these days with the work of the Department of Transport? Do you want to get after them when the estimates are up? For example, how is the new trans-Atlantic air corridor working—the new separation?

Mr. MCGREGOR: I will turn that one over to Mr. Seagrim.

Mr. SEAGRIM: We are not having any particular problems at this time. Actually the separation is the same as it always was because the new regulations were never applied—although they were implemented. They are under restudy you might say. There is no problem at the moment as far as corridors are concerned on the Atlantic.

Mr. BELL (*Saint John-Albert*): Thank you.

The CHAIRMAN: Well, gentlemen, shall I report the 1966 Annual Report, as approved by this Committee, back to the House?

Mr. LESSARD: I so move.

Mr. BELL (*Saint John-Albert*): I second the motion.

Motion agreed to.

The CHAIRMAN: Shall I report the capital budget of 1967, as approved by this Committee, back to the House?

Mr. BELL (*Saint John-Albert*): I will ask my question—



The CHAIRMAN: On the capital budget?

Mr. BELL (*Saint John-Albert*): I can ask it on the auditor's report.

Mr. JAMIESON: I would like to ask one question on the capital budget, if I may.

The CHAIRMAN: One question, Mr. Jamieson.

Mr. JAMIESON: It has to do with the configuration of, and the separation between, first class and economy. Does it cost you a good deal of money to retain this separation? In other words, where you have a return for passenger miles and various things in your report, sir, are there occasions when economy is over-sold or booked and yet there are empty seats?

Mr. MCGREGOR: First class seats?

Mr. JAMIESON: Yes. Is this a troublesome thing? Would you, if you had your way, abandon first class on many routes? Are we moving toward a single class again, or is this something that you are stuck with because of competition, or for other reasons?

Mr. MCGREGOR: There have been experiments carried out on a return to one class that have not worked very satisfactorily and which, I think, ended up as three classes.

The fares are so adjusted between first and economy so, if possible, to get the same return on the deck area of the aircraft. Now, the thing that messes this up a little bit is that in the DC-8 we have the lounge, which is unsold space.

Mr. JAMIESON: But I am talking about public convenience, as well as money. It seems a little ridiculous that because somebody cannot afford to switch from economy to first class you should be flying with empty seats. This happens with a fair degree of consistency, does it not?

Mr. MCGREGOR: Yes; the load factor on the first class section tends to be lower.

Mr. JAMIESON: But there is no alternative to this apparently wasteful process in terms of space?

Mr. MCGREGOR: Do you mean that we just run an economy passenger service—

Mr. JAMIESON: No, I am not suggesting that. I am aware that obviously you would just simply wait around until one was full then move into the other. But where you do have a good deal less of a passenger factor in first class, and where you are trying to utilize and get maximum return and so on—particularly on routes where you have a certain amount of exclusivity—is there any value in maintaining the first class service? Should you not go more to what you have done with the Viscount?

Mr. MCGREGOR: I am afraid there is. When this happens we will consistently reduce the number of first class seats and increase the economy seats proportionately.

Mr. JAMIESON: But this might drive down the over-all economy fares? Would it? If you were to generate even the same amount of money out of more people then presumably you would average it out at less per person.

Mr. MCGREGOR: Are we talking internationally or domestically now?

Mr. JAMIESON: I was more concerned about domestic, naturally.

Mr. MCGREGOR: If the economy proved out that way yes, but the chances are that with the constant return we are striving for on the square footage of the aircraft deck this would not occur.

Mr. JAMIESON: I know the Chairman wants to hurry this along, but I think it is important because you have indicated that there is a continuing drift away from first class.

Mr. MCGREGOR: Yes.

Mr. JAMIESON: The circle within your report shows this. In other words, are we going to reach the point where you are going to have a great many aircraft, the configuration of which is such that you are going to have a lot of seats which are just not developing the revenue, and which are causing an inconvenience to passengers?

Mr. MCGREGOR: I think this is possible. I think BOAC are down to eight first class seats on one configuration they have. We are down to 12 in the DC-9.

Mr. JAMIESON: Fine.

Mr. CANTELON: I find it impossible to reconcile these statements with the answers you gave me earlier to the effect that the over-all revenue has gone up but that the revenue per seat mile has gone down, and that this was due to the fact that you had moved so many out of first class.

Mr. MCGREGOR: Oh, no, I did not say that.

Mr. CANTELON: Well, then, I have misunderstood.

The CHAIRMAN: Mr. Schreyer, you are next.

Mr. SCHREYER: Mr. McGregor, Air Canada has on deposit \$2,250,000 in order to get a queue position on the SST. With whom is this \$2,250,000 on deposit?

Mr. MCGREGOR: I beg your pardon?

Mr. SCHREYER: With whom is it on deposit?

Mr. MCGREGOR: It is half with Sud Aviation and half with BAC—British Aircraft Corporation.

Mr. SCHREYER: You mean the entire \$2,250,000?

Mr. MCGREGOR: I am sorry; \$875,000.

Mr. SCHREYER: The entire \$2,250,000 is on deposit with the Concord people. Is that the idea?

The CHAIRMAN: Mr. McGregor said the amount is \$875,000, not \$2,250,000.

Mr. SCHREYER: Well, then, some \$900,000 is with the Concord people—

Mr. MCGREGOR: That is right.

Mr. SCHREYER: —and the balance with Douglas?

Mr. MCGREGOR: It is \$100,000 per aircraft for six U.S. aircraft queue positions.

Mr. JAMIESON: Do you know the factor in the event that you do not choose to go—the queue position money?

Mr. MCGREGOR: In the case of the Boeing, yes.

Mr. JAMIESON: Is some of it lost if you do not pick it up?

Mr. MCGREGOR: Not the Boeing.

Mr. JAMIESON: No, but you have some money on deposit.

Mr. MCGREGOR: That is an involved thing. The agreement is not signed yet, so I would just as soon not tell you about it.

Mr. SCHREYER: Is the decision by Air Canada to go into SST firm?

Mr. MCGREGOR: Yes.

Mr. SCHREYER: Offhand could you say how many air lines have the capacity and the backing to go into SST? I take it that some of the fairly well established air lines of western Europe will not be able to make this transition. Is this your understanding of the matter?

Mr. MCGREGOR: No, I cannot think of a major airline of the first 15 or 20 which could not do so.

Mr. BELL (*Saint John-Albert*): Mr. McGregor, there has been some suggestion that as we do become involved in these tremendous sums of money, in the future it might be advisable to look over the structure of Air Canada. I am not suggesting that a proper balance sheet could not be put together, but it is a fact that it is a really big business now. We are getting into the competitive position with CPA more than ever before and this is really one of the only methods we have to go on. I would hark back to the railway situation where invariably the comparison is going to come up and this is all tied in with your balance sheet. This year you have shown a profit and this was the year that CPA made a further breakthrough, and I presume if, through some circumstance, it had been a deficit, it might not have met with what public support there is. I think the Committee had better take on a project of looking into this whole business.

The CHAIRMAN: We can do that.

Mr. BELL (*Saint John-Albert*): The chartered accountants can have a field day.

The CHAIRMAN: Shall the capital budget of 1967 be reported back to the House?

Mr. REID: I so move.

Mr. BELL (*Saint John-Albert*): I second the motion.

Motion agreed to.

The CHAIRMAN: Gentlemen, I think perhaps we can move on to the auditors' report and sit a little beyond 6 o'clock rather than come back at 8 o'clock with the officials. I think most members would be amenable to that. I would now ask Mr. Beech to come up to the front.

I would like to thank Mr. McGregor, Mr. Seagrim, Mr. Harvey and Mr. Laing for their very kind attendance this morning and this afternoon. This has been a long sitting for them.

From the firm of Touche, Ross, Bailey & Smart we have with us Mr. John W. Beech and Mr. D. J. McIntyre. Do you have an opening statement, Mr. Beech?



Mr. J. W. BEECH, F.C.A. (*Touche, Ross, Bailey & Smart, Chartered Accountants*): No, I have no opening statement.

The CHAIRMAN: We will then proceed with the questioning on the auditors' report for the year ending December 31, 1966, for Air Canada. Mr. Bell did you have some questions on this?

Mr. BELL (*Saint John-Albert*): No, I asked them on the budget. I cannot think of any questions right now, Mr. Chairman, except that I could follow up what I asked Mr. McGregor and ask the accountant the same general question. In keeping with good bookkeeping practices and the tremendous amount of expenditure we are going to have in the next few years of the order of \$300 million at least, is it not a unique situation the way the money is borrowed from the CNR with no provision for sinking funds? Really, we do not know where we sit by looking at a consolidated balance sheet.

Mr. BEECH: Certainly it is a unique situation in terms of the debt equity ratio. I think Mr. McGregor gave a lot of answers on this subject and someone said it should be referred to the chartered accountants. We could probably make him an honorary chartered accountant.

The CHAIRMAN: Are there any other questions on the auditors' report?

Mr. BELL (*Saint John-Albert*): I am referring to the capital budget and trying to understand this. My question probably is elementary, but Air Canada went to the CNR in 1966 for \$67 million, and the amortized amount on the new aircraft that would be shown is included in the property and equipment, and is shown in your balance sheet and also in their proposed budget similarly.

Mr. BEECH: I am sorry, the amortized amount?

Mr. BELL (*Saint John-Albert*): Well, this extended amount, I have forgotten what they call it. It is the commitments. As I understand it, they lay aside an amount each year, and an amount has been laid aside this year for the Boeings.

Mr. BEECH: In terms of prepayments.

Mr. BELL (*Saint John-Albert*): I see.

Mr. BEECH: There are two kinds of prepayments.

The CHAIRMAN: There is the queue deposit.

Mr. BEECH: Yes.

Mr. BELL (*Saint John-Albert*): No, I am not referring to that.

Mr. BEECH: There are prepayments on contracts.

Mr. BELL (*Saint John-Albert*): I do not understand this method. Without getting into the SST's, for just the ordinary Boeings or even the Douglasses that are in the process of being delivered now, an amount each year is set aside to pay off the full amount. What I am suggesting is that when the final payment or delivery is made on these, it is just not going to be a lump sum that has to be dug up. This is taken into consideration in a proper way, is it not, spreading it out over a period?

Mr. BEECH: With Douglas it has to be taken into account that way, because the terms of the contract call for prepayments at certain dates, with the final payment on delivery.

Mr. BELL (*Saint John-Albert*): That is what has been done and our problem is that it is going to be different.

Mr. BEECH: No, it will just be bigger.

Mr. BELL (*Saint John-Albert*): It will be bigger?

Mr. JAMIESON: I just want to ask one question and it relates to page 22 of the report. I do not know what it means, but it strikes me as most unusual, and it must be unusual to the airline business, that the sales and promotion are \$44,828,447 and the flying operations are only \$60,789,528. What is incorporated under sales and promotion?

The CHAIRMAN: Are you looking at the annual report which has been carried Mr. Jamieson?

Mr. JAMIESON: No, not necessarily. There is no breakdown showing what constitutes this and I would assume an auditor is in a position to tell me what makes up that figure. It is not in there, but if he can find it for me, fine.

The CHAIRMAN: Why did you not deal with it when we were discussing the report?

Mr. JAMIESON: Because you would not let me ask questions at that particular time.

The CHAIRMAN: Mr. Jamieson, I think you have asked more questions today than you ever have in the history of this Committee. You should count your blessings.

Mr. JAMIESON: Briefly does this amount, for example, include payments to travel agents and that kind of thing?

Mr. BEECH: Yes; payments to travel agents and all the normal kind of promotion and sales expenses.

Mr. JAMIESON: It is a very substantial sum.

Mr. SCHREYER: I just wanted to ask whether the concept of making prepayments to an aircraft supplier—the idea of putting money on deposit in order to secure a queue position—is not really departing from ordinary commercial practice?

Mr. BEECH: It is standard practice.

Mr. SCHREYER: It is a means of financing a supplier with low cost funds is it not?

Mr. BEECH: Actually, yes but it is a standard practice in the aircraft industry.

Mr. SCHREYER: But that is only in the aircraft industry. It would not be called an ordinary commercial practice in other sectors of the economy.

Mr. BEECH: I think you may find it occasionally in particular kinds of industries or particular kinds of contracts. Where you have large units with large values, it is not too unusual.

Mr. SCHREYER: Therefore, you do not see any direct connection between this practice of prepayment and queue position deposits and the fact that the major aircraft suppliers have been running into loanable fund difficulties in the last 18 months or two years or so? I am speaking of Douglas aircraft in particular.

Mr. BEECH: From what I have read I gather Douglas had its own particular problems.

Mr. BELL (*Saint John-Albert*): Our money would be protected.

The CHAIRMAN: Perhaps we could have Mr. McGregor sit up here again, because he is falling off the edge of that chair and I would not want him to fall.

Mr. MCGREGOR: The Committee member is quite correct that this supersonic situation is unique in the history of the industry as far as I know, primarily because of the vast amount of expense involved in development and the very long period of time between making contractual commitments and getting deliveries. In the case of the Concord, we would expect to operate our first Concord in 1973 or some 7 years from now. It is very obvious, I think, that the manufacturers have to have a periodic set of payments.

As Mr. Beech suggested, this is simply an extension of the present arrangement where it takes 18 months to 2 years to build an aircraft. We make a payment with the commitment, progress payments and then a final payment.

Mr. SCHREYER: So, you do concede that this practice is in large part peculiar to or almost unique in the aircraft industry?

Mr. MCGREGOR: I do not have experience in buying tremendous equipment like huge derricks and so on and I do not know whether you do it the same way or not. As far as I know, this practice of having periodic payments over the life of the construction of the aircraft has gone on for ages, but in the case of the supersonic it is over a much longer period and a greater amount of money is involved.

Mr. SCHREYER: So by means of this practice, Air Canada is playing some small part in helping to finance the development of supersonics?

Mr. MCGREGOR: I think that could be said, along with the other customers.

Mr. SHERMAN: Mr. Beech, where does the item come in covering prepayments for the queue position where the SST is concerned? Under what heading is it?

Mr. BEECH: In the corporation's account? It is under the heading of accounts receivable at this stage. They are advances for a queue position; there is no contractual obligation, and they are under the heading of other accounts receivable.

Mr. SHERMAN: I have one other question. With respect to the working capital, sir, the figures listed in your report—we are dealing with the auditors' report.

The CHAIRMAN: Yes, but that is in the balance sheet, Mr. Sherman.

Mr. SHERMAN: I will pass for the moment, because I am not really sure what I want to find here now.

Mr. BELL (*Saint John-Albert*): Concerning the prepayments to Douglas, I am not suggesting there are financial difficulties that would affect us, but with respect to the Douglas situation, is the money that we have paid protected fully?

Mr. MCGREGOR: Do you mean if the company fell flat on its face?



Mr. BELL (*Saint John-Albert*): I understand there is a merger in Douglas for a takeover now, and the agreement which you have suggested might be complicated. We have made prepayments of considerable amounts to Douglas. I presume that if the planes were not delivered, we would get our money back.

Mr. MCGREGOR: If they have it.

Mr. BELL (*Saint John-Albert*): This is fairly serious, then, I take it. We and every taxpayer in Canada should be watching the papers every day to make certain that it is resolved satisfactorily.

Mr. MCGREGOR: It would depend on the nearness of completion of an aircraft, I would think. Aircraft are earmarked; one is given a job number indicating that it is for Air Canada and if the job is completed except for a few windows to be put in, this is a buyable aircraft worth about \$9 million.

Mr. BELL (*Saint John-Albert*): All you have missed out on, then, is the earlier date that you anticipated?

Mr. MCGREGOR: Yes.

Mr. BELL (*Saint John-Albert*): But there is a loss of revenue there in changing your plans?

Mr. MCGREGOR: Unquestionably.

The CHAIRMAN: This has been the history of the aircraft industry.

Mr. MCGREGOR: I do not remember such a big company ever getting into apparently such serious difficulties and, as I have mentioned before, I feel quite certain that Viet Nam largely is responsible for it. Douglas has completed a large amount of the work invested in material and labour on a large number of airplanes for which they could not get engines in order to deliver and therefore they did not get final payment.

Mr. BELL (*Saint John-Albert*): Do you feel the American government would be involved in this if it reached a serious international stage?

Mr. MCGREGOR: I am inclined to think so, but I cannot very well speak for it.

Mr. BELL (*Saint John-Albert*): In the case of the Concord, there really are full government guarantees. At least you think that, but there it has been private enterprise.

Mr. MCGREGOR: Yes.

The CHAIRMAN: Mr. MacEwan, you are next.

Mr. MACEWAN: I would like to ask one question with regard to the insurance fund and reserve on page 6. As I understand it, Air Canada carries its own insurance. There is one item here of aircraft accident costs recovered in the amount of \$88,000. Where did that come from and to whom was that paid?

Mr. BEECH: As I recall the costs were recovered in what I think the corporation referred to as a cannibalization of a Viscount that had been virtually written off. They were able to make certain salvages and, as a result, there was a credit to the fund.

The CHAIRMAN: Are there any other questions?

Mr. SHERMAN: I am having difficulty relating this auditors' report to the balance sheet on page 20 and 21 of the annual report. I wonder whether Mr. Beech would help me out on this?

Mr. BEECH: Do you mean what is intended by our report, Mr. Sherman?

The CHAIRMAN: He is having trouble relating your report to the balance sheet.

Mr. BEECH: In our report we have not dealt with every item on the balance sheet. What we have attempted to give you in our report are some of the highlights and a few analyses, in the hope that they would be helpful to the Committee.

Mr. SHERMAN: Thank you.

The CHAIRMAN: Are there any other questions?

Mr. SCHREYER: Last year, according to your report, the capital assets of Air Canada were increased by some \$44 million with respect to aircraft and parts alone. Is that correct?

Mr. BEECH: You are referring to which report?

Mr. SCHREYER: It is on page 5 of your report dated December 31, 1966.

Mr. BEECH: Yes.

Mr. SCHREYER: So, that would be for the calendar year would it not?

Mr. BEECH: That is correct. That is principally for the 6 DC-9's and the 2 DC-8's.

Mr. SCHREYER: Right. Now what I was getting at is this: This is aircraft and equipment actually and physically acquired and in possession?

Mr. BEECH: That is correct.

Mr. SCHREYER: At the present time, what is the asset value of aircraft and parts that you have on order?

Mr. BEECH: Further down the page you will see that is \$26,861,000. Those are the progress payments.

Mr. SCHREYER: Oh, but these are progress payments and that is precisely the point. These are prepayments or progress payments, but what is the ratio of this \$26 million to the actual value? That is what I am trying to get at.

Mr. MCGREGOR: Of an unfinished aircraft? I do not think it has any.

Mr. SCHREYER: No, the value at the time of delivery.

Mr. BEECH: If you are interested in the final sentence it says:

Amounts totalling \$165,000,000 remains to be paid—  
over and above the \$26 million.

Mr. SCHREYER: That gives the complete picture, then, relative to my question. What was the total amount of prepayment as compared to the asset value to Air Canada upon delivery?

Mr. MCGREGOR: That is right.

Mr. BEECH: The amount of \$26,861,000 has been paid on a total asset value of \$191,800,000.

Mr. SCHREYER: Some of which will actually not be delivered for 18 months to two years. Is that correct?

Mr. BEECH: The deliveries will take place over 1967 and 1968.

The CHAIRMAN: Shall I report the auditors' report as approved?

Mr. BELL (*Saint John-Albert*): Let me repeat again that we do not need to make a recommendation at the moment, and I still feel that this needs someone with more knowledge and background inside or outside the government to look into this whole business.

The CHAIRMAN: I agree that this Committee may have to undertake a special study.

Moved by Mr. Byrne and seconded by Mr. Bell that the Auditors Report in respect of Air Canada be reported back to the House.

Motion agreed to.

The CHAIRMAN: The meeting is adjourned to the call of the Chair.



**Appendix A-45****AIR CANADA  
PICK-UP AND DELIVERY SERVICE  
MONCTON, N.B.**

Trans City Delivery Co. Ltd. is the present contractor operating under a standard contractual arrangement. The criterion of selection is to obtain an operator who will efficiently take care of the air freight traffic requirements. Charges collected by Air Canada from air freight customers on behalf of the contractor are settled on a monthly basis.

(The above in reply to question by Mrs. Rideout.)

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***Instructions to Flight Attendants re Exchange on U.S. Currency***

Air Canada Manual Publication on Standards of Good Passenger Service contains the following instruction:

**CANADIAN AND U.S. CURRENCY:** On domestic and Trans-Border flights, the price per drink is \$1.00, in either Canadian or U.S. currency. When a passenger pays for his drink in U.S. currency and you are unable to give change in U.S. dollars, give him Canadian dollars PLUS the premium on U.S. currency (8%). For example, if the passenger offers \$10.00 U.S. for one drink, return \$9.00 U.S. or \$9.70 Canadian. (The premium on \$9.00 U.S. at 8% is 72c, or 70c. when rounded to the nearest 5c.)

(The above in reply to a question by Mr. Deachman.)

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## MEASURES OF TRAFFIC SIZE AND GROWTH

## AIR CANADA AND OTHER AIRLINES

(Scheduled Services)

	1963	% Incr.	1964	% Incr.	1965	% Incr.	1966	% Incr.
<i>Revenue Passenger Miles</i> (Billions)								
Air Canada.....	2.70	+ 3	2.92	+ 8	3.54	+21	4.19†	+18
CPAL.....	0.79	+13	0.87	+10	1.02	+17	1.21	+19
American.....	7.15	+10	8.11	+13	9.20	+13	11.80	+28
United.....	9.07	+ 8	9.94	+10	12.25	+23	13.21*	+ 8
Trans World.....	6.87	+22	8.59	+25	10.22	+19	10.45*	+ 2
BOAC.....	3.02	- 9	3.75	+24	4.37	+17	4.81	+10
Air France.....	3.12	+ 1	3.48	+12	3.81	+ 9	4.48	+18
KLM.....	1.59	-10	1.86	+17	2.08	+12	2.41	+16
SAS.....	1.59	+ 7	1.84	+16	1.98	+ 8	N/A	N/A

*Revenue Ton Miles*  
(Millions)

Air Canada.....	313	+ 5	346	+11	427	+23	521	+22
CPAL.....	91	+15	103	+13	123	+19	148	+20
American.....	895	+ 8	1,012	+13	1,187	+17	1,545	+30
United.....	1,080	+ 7	1,205	+12	1,497	+24	1,629	+ 9
Trans World.....	853	+21	1,066	+25	1,303	+22	1,340	+ 3
BOAC.....	408	+11	502	+23	592	+18	681	+15
Air France.....	410	+ 1	450	+10	505	+12	590	+17
KLM.....	255	- 6	297	+16	351	+18	405	+15
SAS.....	213	+10	246	+15	272	+11	N/A	N/A

† Air Canada on strike for two weeks in November 1966.

\* United and Trans World on strike for 42 days in 1966.

(The above in reply to a question by Mr. Bell)

April 17, 1967

### BREAKDOWN OF SEAT MILES BY ROUTES CPAL & AIR CANADA 1966

	CPAL <sup>(1)</sup> (000's)	AIR CANADA <sup>(2)</sup> (000's)
Regional .....	274,382	2,266,855
Transcontinental .....	249,854	2,153,656
International .....	1,636,394	1,966,740
System .....	2,160,630	6,387,251
Proportion—Regional to System .....	13%	35%

#### Notes:

<sup>(1)</sup> CPAL regional routes consist of all B.C. and Yukon services.

<sup>(2)</sup> Air Canada regional routes consist of all North American routes except transcontinental services west of Toronto and Florida routes.

(The above in reply to a question by Mr. Byrne.)

### ANNUAL RENTAL RATE PER SQUARE FOOT OF SPACE LEASED IN D.O.T. TERMINALS AS AT DECEMBER 31, 1966

	Toronto	Montreal
Ticket Counter .....	\$15.00	\$15.00
Sales Office .....	10.00	10.00
Customs & Immigration .....	7.00-10.00	7.00-10.00
Office Space .....	7.00	7.00
Baggage & Commissary .....	3.50	3.50
Basement Storage .....	2.50- 3.50	—
Ramp Vehicle Parking .....	1.50	1.50

(The above in reply to a question by Mr. Reid.)

### AIR CANADA EMPLOYEE DATA AT DECEMBER 31

	Maintenance & Overhaul (Maintenance, Purchases & Stores & Engineering)	All Other	Total
Winnipeg			
1966 .....	997	1,024	2,021
1965 .....	978	885	1,863
1964 .....	1,003	865	1,868
1963 .....	974	825	1,799
1962 .....	999	859	1,858
Montreal			
1966 .....	2,952	3,114	6,066
1965 .....	2,812	2,655	5,467
1964 .....	2,661	2,258	4,919
1963 .....	2,527	2,189	4,716
1962 .....	2,630	2,214	4,844



With reference to employee turnover at Montreal Maintenance and Overhaul, departmental records indicate separations (exclusive of short term temporary employees such as summer employment) of approximately 900 employees in the period 1962-1966 or an average of almost 7% per year based on the year-end counts shown above.

(The above in reply to a question from Mr. Sherman.)

#### CPA SERVICES TO EUROPE

- |                |   |   |
|----------------|---|---|
| June 1955      | — | Vancouver-Amsterdam transpolar flight commenced.  |
| June 1957      | — | Montreal-Lisbon service inaugurated.  |
| September 1957 | — | Lisbon service extended to Madrid.<br>(In 1958 Edmonton was added to Vancouver-Amsterdam route, and Santa Maria Azores added to Montreal-Madrid). |
| March 1960     | — | Rome added to Lisbon-Madrid.  |
| October 1965   | — | Toronto-Montreal-Amsterdam-Rome service inaugurated.  |

(This in reply to a question by Mr. Orlikow.)

#### TRANSFERS FROM WINNIPEG MAINTENANCE AND OVERHAUL GROUP

Air Canada payroll records show that during the three year period 1964-1966, 177 employees transferred from the Winnipeg Maintenance and Overhaul group. Of these, 140 were to Montreal and 37 to other locations.

(The above in reply to a question by Mr. Rock.)

#### COST OF KEEPING WINNIPEG BASE OPEN

The continuing annual cost of Viscount overhaul in the Winnipeg Base in excess of the cost of performing the same function at Dorval in consolidated facilities is estimated at \$3,000,000 per annum.

(The above in reply to a question by Mr. Reid.)

## AIR CANADA FLIGHTS VANCOUVER TO REGINA AND SASKATOON

## SUMMER 1965 SCHEDULE

Flight Number	#140	#870-160	#142-510	#152	#870-150
Aircraft Type	VV	DC8-VV	VV-VG	VV	DC8-VV
Dep. Vancouver (PDT).....	1240	0815	1740	1635	0815
Arr. Regina (CST).....	1730	1255	2230		
Arr. Saskatoon (CST).....				2115	1415
Elapsed Time.....	3:50	3:40	3:50	3:40	5:00

## WINTER 1965/66 SCHEDULE

Flight Number	#502	#188	#152	#502-150
Aircraft Type	VG	VV	VV	VG-VV
Dep. Vancouver (PST).....	1000	1650	1550	1000
Arr. Regina (CST).....	1515	2230		
Arr. Saskatoon (CST).....			2130	1600
Elapsed Time.....	3:15	3:40	3:40	4:00

## SUMMER 1966 SCHEDULE

Flight Number	#504	#808-158	#102	#152	#870-184
Aircraft Type	VG	DC8-VV	VV	VV	DC8-VV
Dep. Vancouver (PDT).....	1735	0720	1245	1645	0830
Arr. Regina (CST).....	2155	1150			
Arr. Saskatoon (CST).....			1725	2135	1240
Elapsed Time.....	3:20	3:30	3:40	3:50	3:10

## WINTER 1966/67 SCHEDULE

Flight Number	#404	#870-138	#134	#102	#140
Aircraft Type	VG	DC8-VV	VV	VV	VV
Dep. Vancouver (PST).....	1735	0830	0830	1130	1625
Arr. Regina (CST).....	2245	1640			
Arr. Saskatoon (CST).....			1420	1705	2205
Elapsed Time.....	3:10	6:10	3:50	3:35	3:40

## SUMMER 1967 SCHEDULE (effective April 30)

Flight Number	#404	#870-150	#158	#808-134
Aircraft Type	VG	DC8-VV	VV	DC8-VV
Dep. Vancouver (PDT).....	1745	0815	1645	0725
Arr. Regina (CST).....	2215	1240		
Arr. Saskatoon (CST).....			2135	1240
Elapsed Time.....	3:30	3:25	3:50	4:15

## SUMMER 1967 SCHEDULE (effective Aug. 20)

Flight Number	#918	#914-138*	#946-156	#870-154	#946-168	#158-948
Aircraft Type	DC9	DC9-VV	DC9-VV	DC8-VV	DC9-VV	VV-DC9
Dep. Vancouver (PDT).....	1040	1210	1825	0815	1825	1755
Arr. Regina (CST).....	1430	1630	2255			
Arr. Saskatoon (CST).....				1245	2250	2220
Elapsed Time.....	2:50	3:20	3:30	3:30	3:25	3:25

\* Effective September 1.

(The above in reply to question by Mr. Southam)

April 19, 1967

OFFICIAL REPORT OF MINUTES  
OF  
PROCEEDINGS AND EVIDENCE

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Translated by the General Bureau for Translation, Secretary of State.

LÉON-J. RAYMOND,  
*The Clerk of the House.*



HOUSE OF COMMONS

First Session—Twenty-seventh Parliament  
1966-1967

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STANDING COMMITTEE

ON

**TRANSPORT AND COMMUNICATIONS**

*Chairman:* Mr. JOSEPH MACALUSO

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PROCEEDINGS

No. 44

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TUESDAY, APRIL 25, 1967

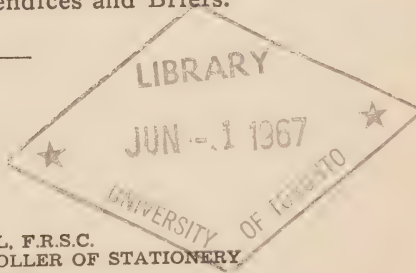
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Respecting

The Sixteenth and Seventeenth Reports to the House  
and  
Index of Witnesses, Appendices and Briefs.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1967



STANDING COMMITTEE  
ON  
TRANSPORT AND COMMUNICATIONS

*Chairman:* Mr. Joseph Macaluso

*Vice-Chairman:* Mr. H. Pit Lessard,

and

Mr. Andras,  
Mr. Bell (*Saint John-  
Albert*),  
Mr. Byrne,  
Mr. Cantelon,  
Mr. Clermont,  
Mr. Deachman,  
Mr. Groos,  
Mr. Horner (*Acadia*),

Mr. Howe (*Wellington-  
Huron*),  
Mr. Jamieson,  
Mr. MacEwan,  
Mr. McWilliam,  
Mr. Nowlan,  
Mr. O'Keefe,  
Mr. Olson,  
Mr. Orlikow,

Mr. Pascoe,  
Mr. Reid,  
Mrs. Rideout,  
Mr. Rock,  
Mr. Schreyer,  
Mr. Sherman,  
Mr. Southam—25.

(Quorum 13)

R. V. Virr,  
*Clerk of the Committee.*

ORDER OF REFERENCE

TUESDAY, April 25, 1967.

*Ordered*,—That the following Bills be referred to the Standing Committee on Transport and Communications:

Bill S-36, An Act to incorporate Commercial Solids Pipe Line Company.

Bill S-52, An Act to incorporate Rainbow Pipe Line Corporation.

Attest.

LÉON-J. RAYMOND,  
*The Clerk of the House of Commons.*



## REPORTS TO THE HOUSE

APRIL 25, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### SIXTEENTH REPORT

Your Committee has examined the Capital Budget of Air Canada for the year ending December 31, 1967, the Annual Report of Air Canada for 1966 and the Auditors' Report to Parliament for 1966 in respect of Air Canada and commends them to the House.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 43 and 44*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

APRIL 25, 1967.

The Standing Committee on Transport and Communications has the honour to present its

### SEVENTEENTH REPORT

On Thursday, March 16, 1967, your Committee reported Bill S-31, An Act respecting Quebec North Shore and Labrador Railway Company without amendment.

A copy of the relevant Minutes of Proceedings and Evidence (*Issue No. 42*) is tabled.

Respectfully submitted,

JOSEPH MACALUSO,  
*Chairman.*

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*The Clerk of the House.*











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